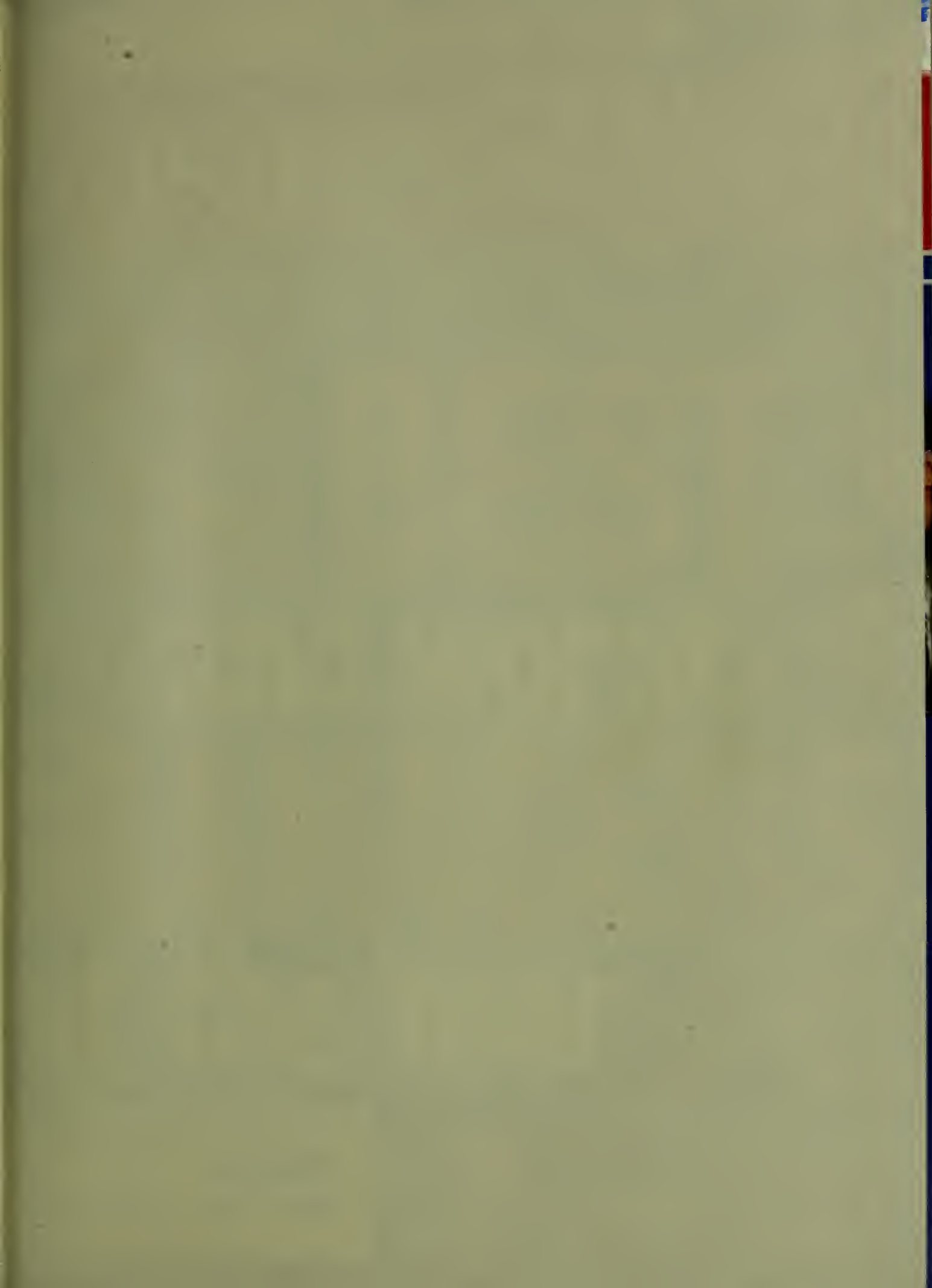


**For Reference
Do Not Take
From the Library**

Every person who maliciously cuts, delaces, breaks or injures any book, map, chart, picture, engraving, statue, coin, model, apparatus, or other work of literature, art, mechanics or object of curiosity, deposited in any public library, gallery, museum or collection is guilty of a misdemeanor.

**Penal Code of California
1915, Section 623**





BusinessWeek

JANUARY 13, 2003

www.businessweek.com



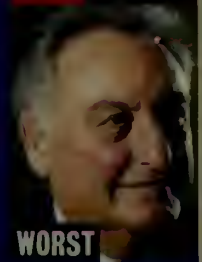
WORST

BEST

The BEST (and worst) MANAGERS of the Year



BEST



WORST



BEST



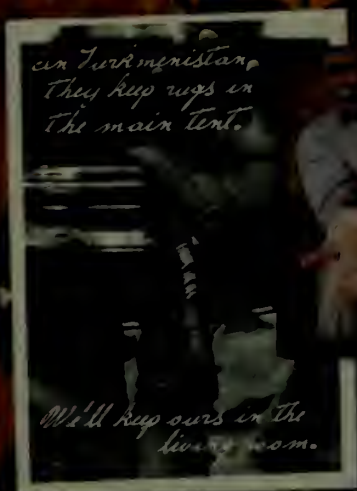
WORST

##XBBDD ***CR LOT 0006A*C030
#LBRLP000097 1#30249
BURLINGAME
JAN - 6 2003
BURLINGAME PUBLIC LI
400 PRIMROSE RD
BURLINGAME CA



NEW BOSS

Plus:
» Managers to Watch
» The New Bosses



*in Turkmenistan,
they keep rugs in
the main tent.*

*We'll keep ours in the
living room.*

*it was like trying to find a needle
in a haystack. A one-hun*

*c. 1900 Tekke tribal rug
41° north 73° west*



THE NEW NISSAN MURANO. Introducing a distinctive SUV with all-wheel drive, 245 horsepower and the smooth

For more info, call 1-800-713-3181 or visit NissanUSA.com.

stack.
- old Tekke rug from Turkmenistan.



Adventures in On-Road

CVT And styling that embraces both highway and lonely road. It's the perfect vehicle for all your on-road adventures



SHIFT_journeys

dreamworks



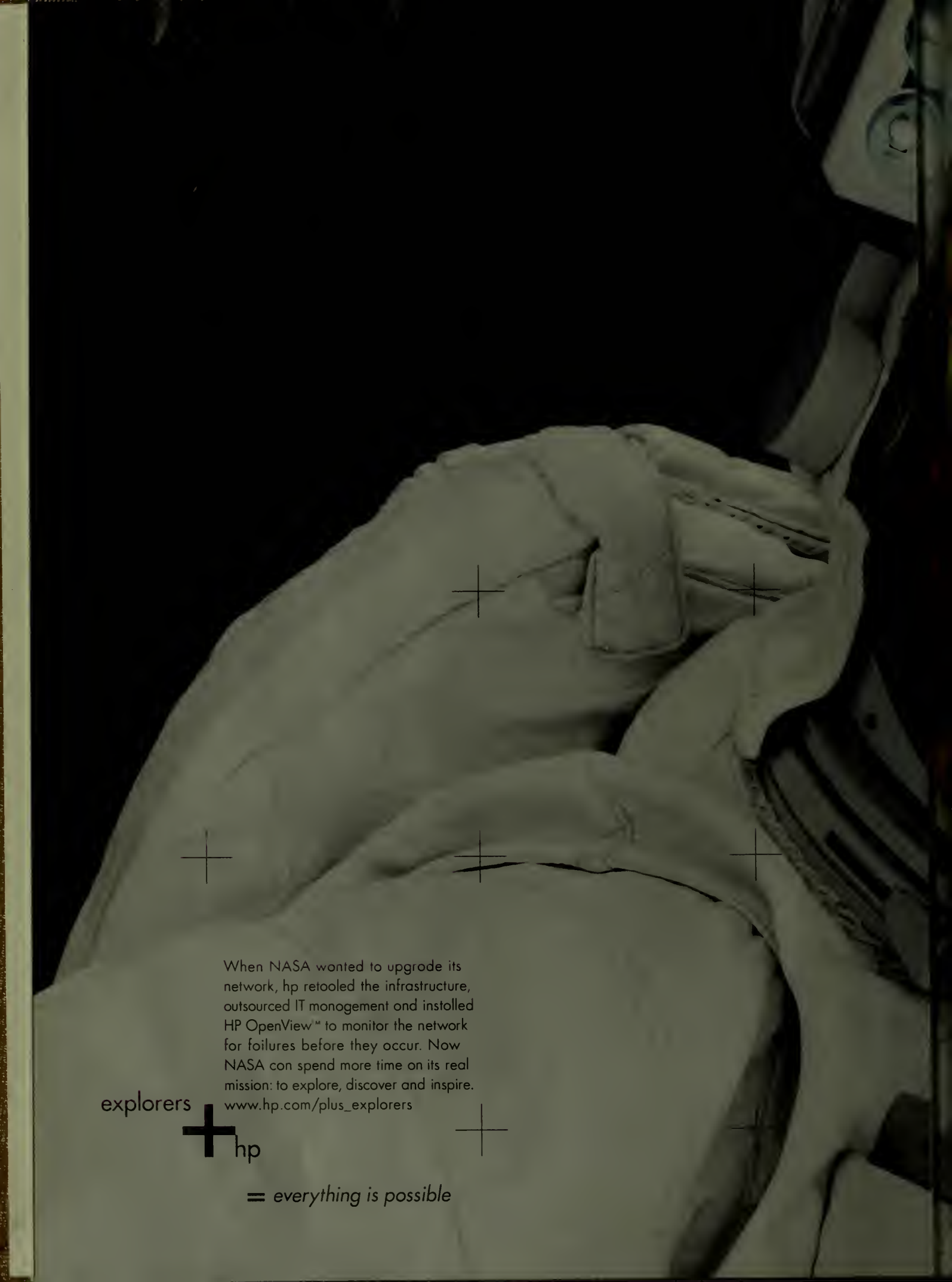
DreamWorks and hp have formed a unique technology partnership with one simple goal: to explore new creative frontiers. DreamWorks animators use hp workstations and servers running Linux to increase collaboration and reduce rendering times and overall costs—freeing them to invent brave new animated worlds of ogres and the princesses who love them. www.hp.com/plus_dreamworks

= *everything is possible*



invent





When NASA wanted to upgrade its network, hp retooled the infrastructure, outsourced IT management and installed HP OpenView™ to monitor the network for failures before they occur. Now NASA can spend more time on its real mission: to explore, discover and inspire.

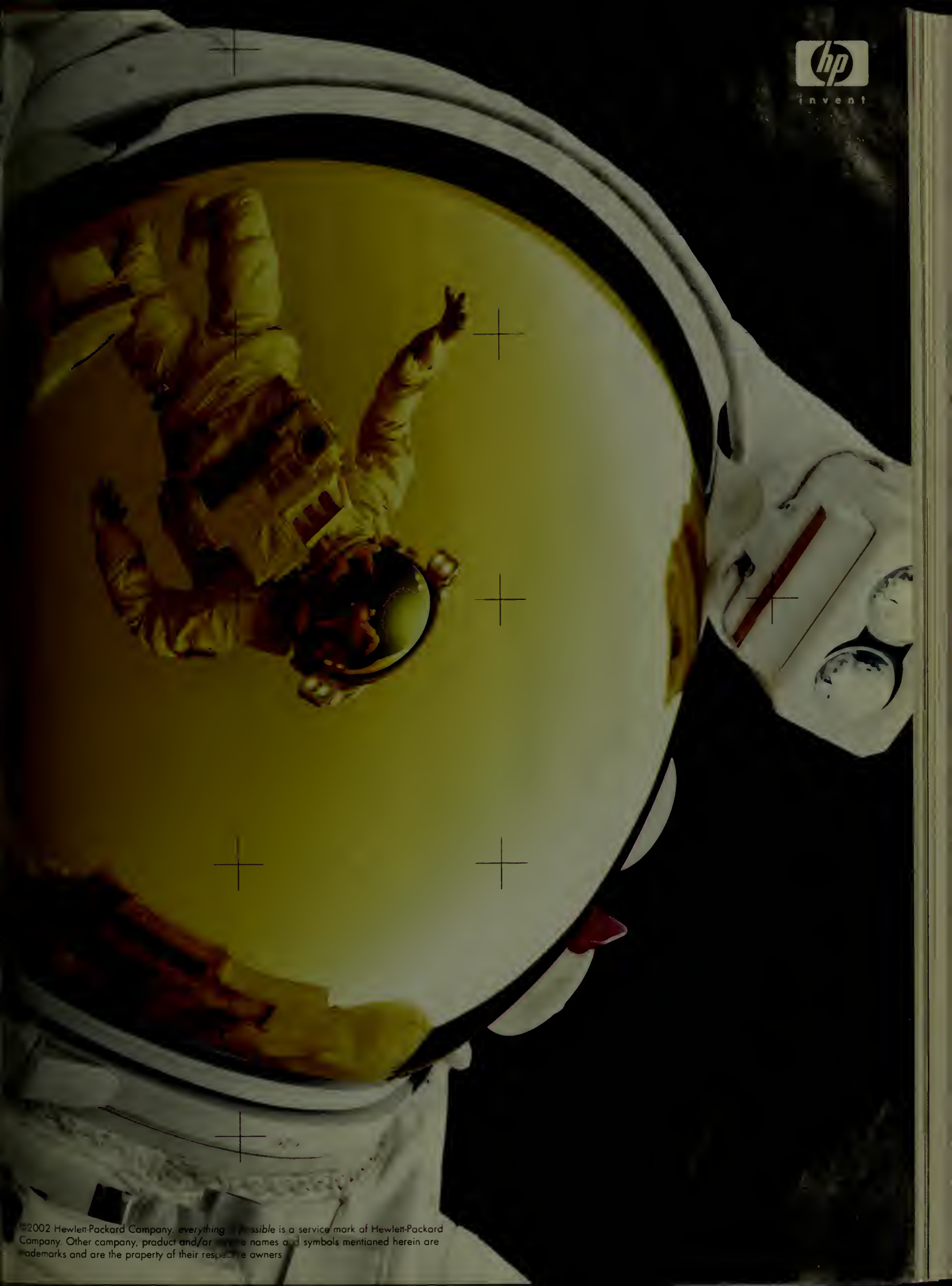
explorers



= everything is possible



invent



When you stay in a box, does it stay with you?

The  Hilton Family

 Hilton HHonors®
Points & Miles

If your hotel room is cramped, chances are your confidence is too. A big presentation needs
for big preparation and a big room. That's why at Embassy Suites every guest is guaranteed

Two of the best things about a fire.



spacious two-room suite. It's the kind of space you don't get in most other hotels, but exactly the kind of space you deserve. Visit our web site or call 1-800 EMBASSY.



EMBASSY SUITES
HOTELS®

embassysuites.com



How do you get feedback from 52 busy partners over 4th of July weekend?

{ Digital Review and Comment }

Get feedback on a document from multiple people
wherever and whenever with digital sticky notes. It's the revolutionary
way to keep all of your comments in one place.
Adobe Acrobat. Create an Adobe PDF and do more with your documents.

Adobe **Acrobat 5.0**

Tools for the New Work



SPECIAL REPORT

THE GOOD, THE BAD, AND THE UGLY
If ever there was a year to examine the many
ways in which managers succeed—or fail—
turbulent 2002 was it page 58

BusinessWeek

JANUARY 13, 2003

Special Report

- 58 2002: A CRUCIBLE**
It was a year to test execs' souls
- 60 THE BEST MANAGERS**
Excelling under trying conditions
- 61 MANAGERS TO WATCH**
Will they surprise us again in 2003?
- 70 THE BEST OF A BAD SITUATION**
A little ingenuity went a long way
- 70 WAS BUFFETT RIGHT?**
His portfolio trounces tech stocks
- 72 REPEAT PERFORMERS**
Keeping the good times rolling
- 77 THE NEW BOSSES**
Are they ready for life at the top?
- 78 THE WORST MANAGERS**
They dropped the ball, big time
- 79 GOOD TIMING**
Captains who hit the lifeboats first
- 80 THE FALLEN**
Execs who were shown the door
- 84 BAD DEALMAKERS**
Some leading lights went dim
- 84 PADDED RESUMES**
About that MBA...

- 86 THE PERP WALK**
Made-for-TV scandals
- 87 UNDER FIRE: MARTHA TO BERNIE**
- 90 THE WHISTLEBLOWERS**
Heroines who raised the alarm
- 90 WATCHDOGS**
- 92 THE WELCH LEGACY**
How his disciples are faring

News: Analysis & Commentary

- 32 SOGGY, AND STILL SLIDING**
What's weighing down the dollar
- 34 TONIC FOR THE MARKET?**
Ways to jump-start the economy
- 36 BLIZZARDS OF BANKRUPTCIES**
Analysts see more misery ahead
- 37 A QUESTION FOR MR. DONALDSON**
The SEC nominee and EasyLink
- 38 COMMENTARY: VACCINE SUITS**
- 39 THE GREAT SUV SHOWDOWN**
Competition heats up for Detroit
- 40 SATELLITE DISHES IT OUT**
The pressure on cable mounts
- 43 COMMENTARY: ASBESTOS**
- 44 SKI RESORTS' UPHILL BATTLE**
Bringing new blood to the slopes

International Business

- 46 KOREA: HOW DIRE A THREAT?**
Pyongyang's maneuvers matter
- 46 COMMENTARY: SOUTH KOREA**
- 48 COMMENTARY: TOYOTA**
It should stop feeding losers
- 50 FRANCE: McDONALD'S**
Gallic twists are luring crowds
- 54 MEXICO: BANKING**
Banco Azteca lures the little
- 57 INTERNATIONAL OUTLOOK**
Iran: The mullahs' new strategy

Government

- 45 WASHINGTON OUTLOOK**
Show time for the FCC's Powell

Economic Analysis

- 26 ECONOMIC VIEWPOINT**
- 29 BUSINESS OUTLOOK**

Features

- 14 UP FRONT**
- 18 READERS REPORT**
- 22 BOOKS**
- 24 WILDSTROM: TECHNOLOGY &**
- 137 INSIDE WALL STREET**
- 142 EDITORIALS**

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

INDUSTRY OUTLOOK 2003

INTRODUCTION

INDUSTRY OUTLOOK 2003

The ways sectors behave after recessions have changed. Are the transformations permanent?

MANUFACTURING

CONSTRUCTION

Homebuilding is still strong, but higher rates, taxes, and fewer luxury buyers will cut into business

NO OFFICE PARTY THIS YEAR

Commercial construction is in Nowheresville

ENERGY

The situations in Venezuela and Iraq are clouding the picture

POWERING DOWN

Energy companies brace for change—and scrutiny from Washington

AUTOS

For the Big Three, rising incentive and pension costs will continue to be a drag on profits

DEFENSE & AEROSPACE

War won't help weapons makers; commercial aerospace looks bleak

METALS & MACHINERY

Steelmakers need an iron stomach

FINANCE

110 BANKING & SECURITIES

Investment bankers will struggle, but commercial banking will pay

111 MONEY TALKS—IN SPANISH

Racing for the Hispanic market

112 INSURANCE: SO MANY DISASTERS

Profits aren't likely, and premium hikes are a certainty

INFO TECH

116 SOFTWARE

Integration software looks strong, and consolidation is under way

117 SMALL FRY GO TO WASHINGTON

The best hope for software startups

118 COMPUTERS

Network gear looks good, but many other lines will stay sluggish

119 CHIPS

Many companies will upgrade PCs—and the industry is ready for them

120 TELECOM

At last, after two years of carnage, the depression is lifting

121 CONSUMER ELECTRONICS

Cameras, DVD players, and digital TVs continue to be hot sellers

SERVICES

124 RETAIL

Sales will move forward, especially for discounters

125 TRANSPORTATION

Restructuring will mean fewer companies—and new efficiencies

126 MEDIA

The dealmakers are back

127 ADVERTISING

Many marketers are wary, but Mad Ave may have turned the corner

128 TRAVEL

No day at the beach: Carriers face a sea of red ink

129 PROFESSIONAL SERVICES

Demand shrank last year, and this year won't be much better

LIFE SCIENCES

132 DRUGS

Fewer patents will expire, and then there's the prescription drug benefit

133 BIOTECH: 'A TERRIBLE PANIC'

Many private firms could go under

134 HEALTH CARE

The industry is growing, if not glowing

Updated every business day at www.businessweek.com



Visit the BusinessWeek 50 area of our site for news, investing tools, and more at

www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ IT HELPER:

HP's Ann Livermore on how companies can get the most out of their technology



■ INDIA'S LURE:

Clients "come for the cost and stay for the quality," says Wipro Technologies' Vivek Paul



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your handheld! Get news from Daily Briefing, S&P data, and more.

Visit AvantGo.com to sign up



Find quick links to everything on this page at the Jan. 13, 2003, issue's table of content online, or go directly to www.businessweek.com/magazine/content/03_02/online.htm

Supercharged Race

In the global competition to build the hottest supercomputer, Japan has the speed and power lead right now. But IBM promises to put the U.S. back out front—by far—in 2005



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

News Analysis: 2002 Broadway ticket sales may set a record as hot shows and savvy marketing drew crowds



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Street Wise: Analysts' moods grow gloomy as expectations for a pickup in the economy—and stocks—get pushed deeper into 2003

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

Entrepreneur Q&A: Web-preneur Justin Kitch talks about how Homestead, a build-your-own Web site service, made the leap from free to fee



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

News Analysis: What's the secret to Mercury Interactive's growth? Making money-saving IT tools



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

Midterm Reports: In these B-School Journals, first-year MBA students talk about the initial 10 weeks of school

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

Newsmaker Q&A: As smaller outfits struggle, Euro biotech is mating for survival, says Lehman Brothers expert Maarten de Jong

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Ask Careers: With companies consolidating real estate, comfortable and efficient workspace is becoming ever more important

CREATE WIRELESS HISTORY



motorola.com/wireless-semi

IT LOOKS LIKE A PROCESSOR. IT ACTS LIKE A CANVAS.

The DragonBall™ MX1 integration platform from Motorola. It's the fifth-generation engine that drives the most advanced 2.5G and 3G multimedia applications – from PIMs to MP3s. In fact, 70% of the world's PDAs/Smart Handheld Devices use DragonBall microprocessors. The Motorola DragonBall MX1 platform offers best-in-class performance and battery life. And Motorola is the first global semiconductor supplier to announce on-chip Bluetooth™ wireless technology-ready support. The Dragonball MX1 platform. Everything you need to design with confidence and create your next great masterpiece.

DragonBall™ MX1

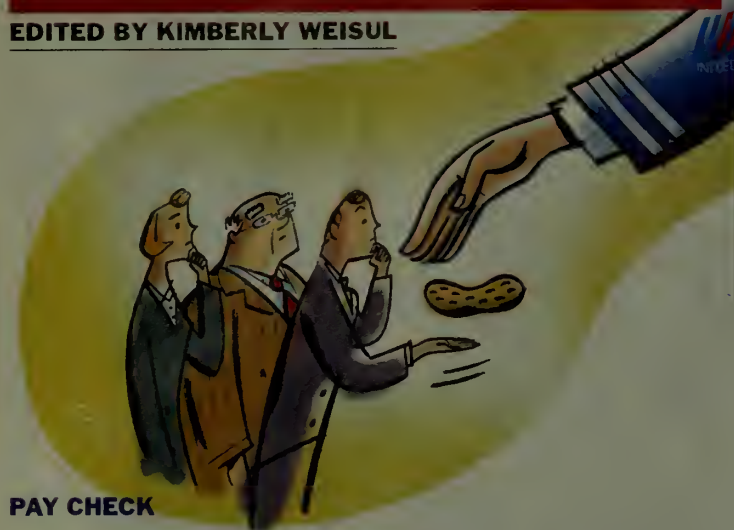


MOTOROLA
intelligence everywhere™

*digitaldna**

Up Front

EDITED BY KIMBERLY WEISUL



PAY CHECK

UNITED'S DIRECTORS: WORKING FOR FREE?

IN THE 1800S, MISERLY BUSINESSES often paid workers in scrip, redeemable only at a company store. It didn't buy much, but it was a good deal for employers. Now, United Airlines has brought the practice into the modern age. Although bankrupt, it's paying independent directors solely in company stock.

The practice began in October, while UAL fought to stay out of bankruptcy. Since then, UAL's six outside board members have received about 47,000 shares, including 4,538 on Dec. 23—two weeks after the airline went into Chapter 11. When issued, the shares were worth \$93,600. Now, they're worth \$67,200, a

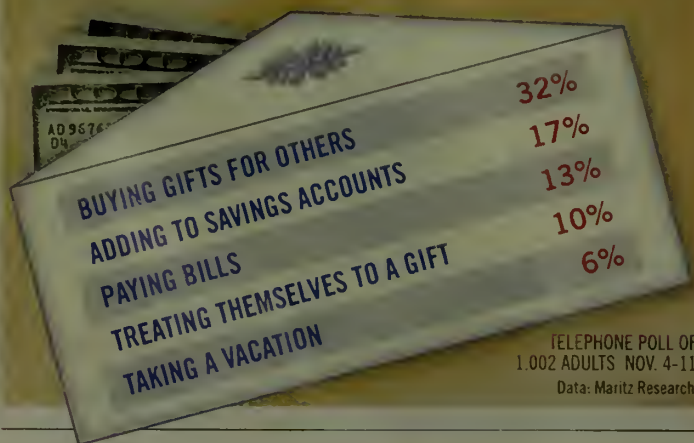
28% drop. While the shares can be traded, no directors have sold. UAL's compensation committee chair, retired US West CEO Richard McCormick, got the most: 10,355 shares, worth \$20,475 when granted, now worth \$14,807.

The directors aren't grumbling—perhaps because UAL CEO Glenn Tilton has taken his lumps, too. He got 1.15 million options and 100,000 restricted shares when he agreed to head the airline in September. Still, Tilton got a \$3 million signing bonus and \$4.5 million in trust funds available at the end of his five-year contract. And those sweeteners were in cash. *Michael Arndt*

THE BIG PICTURE

FOUND MONEY

Here are the most popular uses for yearend bonuses:



TALK SHOW "We were just waiting to sell this town and pack up our stuff and be gone."

—Joe Lapple, who, with wife Elizabeth, sold the 19th century, 82-acre town of Bridgeville, Calif., for \$1.8 million on eBay

HALL OF SHAME

THE FEDS FAIL AERIAL FIREFIGHTERS

CAN THERE BE MANY JOBS riskier than flying 50-year-old planes through black smoke, trying to put out wildfires raging in the mountains below? Pilots would want to make sure their life insurance premiums are paid up before lift-off.

Sadly, that's not an option. Aerial firefighters—who help save lives, homes, and businesses—can't get affordable life insurance. Last summer, six aerial firefighters were killed in crashes, leaving behind five widows and five children.

The government outsources air-tanker missions to the lowest-cost private operators, who usually don't pro-

vide life insurance for their employees. Public-safety-officer assistance is supposed to help families of employees' volunteers who are killed while serving a public agency. But the Bureau of Justice Assistance has ruled that tanker pilots are ineligible because they're contractors.



DEADLY JOB: Pilots are quitting in droves

Now, several groups, including the Association of Airtanker Pilots, are lobbying Congress to change the rules. Lawmakers would be wise to act fast. Frustrated pilots are defecting to private contractors, says AAP's Robert Fish. Meanwhile,

a severe drought in the West and a hundred-year build-up of dead timber in forests make aerial firefighters more crucial than ever. Says Fish, "We're losing them at the exact moment we need them the most." *Michelle Con*

BROADCAST NEWS

HDTV'S BLAST FROM THE PAST

THE MOVE TO DIGITAL BROADCASTING has been sluggish, but that isn't fazing dot-com billionaire Mark Cuban. Last year, he said he would spend \$100 million to launch the first nationwide high-definition TV channel. With HDTV prices below \$1,500, sales soared 56% in November, to a total of 2.2 million units since January, and are expected to top 10 million by 2006, according to the Consumer Electronics Assn.

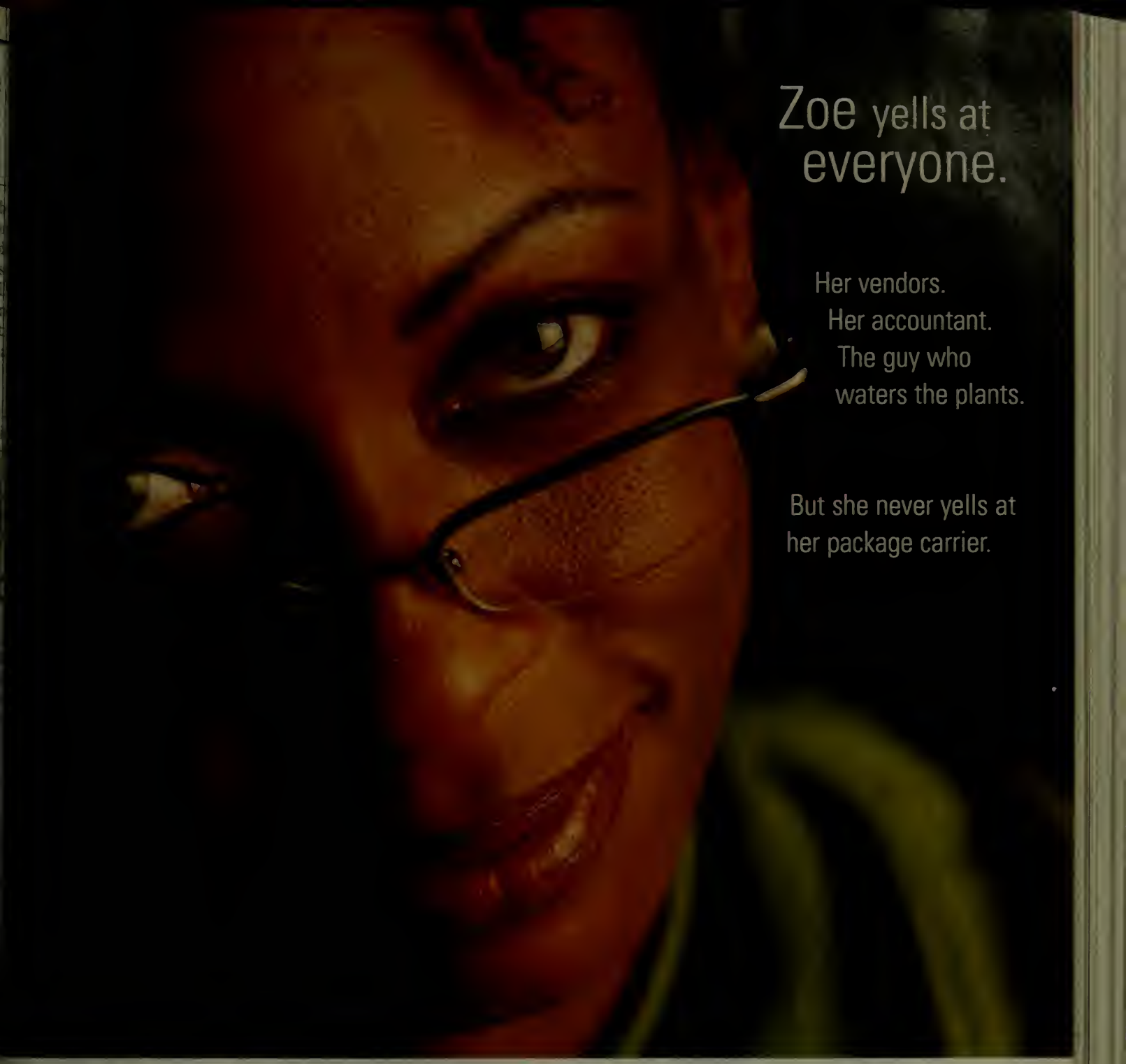
Since it debuted to DirectTV subscribers in September 2001, Cuban's HDNet has aired sports, travelogues, and documentaries. But now, Cuban is trolling for shows from TV's low-tech past. Early in 2003, he'll be airing reruns

of *Hogan's Heroes*, the 1960s sitcom about World War II POWs. Unlike newer shows shot on video, *Hogan's* is on 35mm film, which converts smoothly to HDTV. When Cuban tested the show earlier this year, he says he received thousands of e-mails and realized that older shows could



HOGAN'S HEROES: Big HDTV draw

give him a jump in HDTV programming. "People were just crying for anything in HD," he says. Next on his wish list: *Green Acres* and *Charlie's Angels*. *Andrew Pa*



Zoe yells at
everyone.

Her vendors.

Her accountant.

The guy who
waters the plants.

But she never yells at
her package carrier.

Is dependable, cost-effective shipping so much to ask? Good thing **FedEx Ground**[®] has what you want in a delivery service. Like a Money-Back Guarantee*, ground service to every business address within the U.S., Canada and Puerto Rico, plus the reliability you expect from FedEx. Ready for some peace of mind?

Don't worry. There's a FedEx for that.SM

fedex.com

FedEx
Ground



The Christening...



Make Your Money Work Harder.

AN ALTERNATIVE TO TODAY'S LOW RATES

Looking for a potential solution to today's low money market rates? Consider the **Strong Ultra Short-Term Income Fund** for your savings goals of one year or longer.

HIGHER RETURN POTENTIAL

Your total return consists of the income from the bonds in the Fund and the gains and losses in the values of those bonds. Income can be offset if the value of the bonds decline.

EASY ACCESS

Although this isn't a money fund, it still provides you with check writing and no penalties for withdrawal.¹

THE STRONG ULTRA SHORT-TERM INCOME FUND

30-Day Current Yield
as of 12-16-02

3.44%

**CALL
24/7**

1-800-368-1565
www.Strong.com

STRONG 

0.71%, 4.48%, 5.40%

, were the Fund's 1-, 5-, and 10-year average annual total returns as of 9-30-02. Performance is historical and does not represent future results. Investment returns, principal value, and yields vary, and you may have a gain or loss when you sell shares. Please keep in mind that the Fund is subject to interest rate risk—generally, when interest rates rise, its share price declines. Over the past year, the Fund's total return has trailed that of the average money fund. Current performance may be lower or higher than the quoted performance. Call us, or visit www.Strong.com for the most current performance information. For more complete information, including management fees and expenses, please call for a free prospectus kit or download one at www.Strong.com. Please read it carefully before you invest or send money. Performance is for Investor Class shares only. Please consult a prospectus for information about all share classes. ■ The Fund invests a portion of its assets in lower-quality securities that present a significant risk for loss of principal and interest. Please consider this before investing. ■ The Fund's average maturity is usually one year or less. ■ Retirement accounts may be subject to early withdrawal penalties. ■ Securities are offered through Strong Investments, Inc. RT30250 12-02

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS:
 Joyce Barnathan, Frank J. Comes, Robert J. Dowling, Kathy Rebello
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Peter Elstrom, Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Arnst, Stephen Baker, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehring, Seymour Zucker (Sr. contributing ed.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.); Michael S. Serrill (Sr. ed.); David Rocks, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe), John Koppisch (Int'l. finance)
ASSOCIATE EDITORS: Robin Ajello, Dan Beucke, Diane Brady, Nanette Byrnes, Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gerry Khermouch, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: Spencer E. Ante. E-Business: Timothy J. Mullaney. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowry. People: Susan Berfield. Personal Finance: Lewis Brahm, Carol Marie Cropper, Susan Scherrek, Anne Tergesen. Scoreboards: Frederick J. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports Business)
STAFF EDITORS: Jennifer Merritt, Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Aleta Davies, Doug Royalty (Sr.); Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keating, Robert J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.); Jamie Elsis, Edith Gutierrez, Ron Plyman (Asst.). Graphics: Joan Danaher (Director); Rob Doyle (Deputy dir.); Laurel Dainis-Allen, Joe Calviello, Alberto Mena, Ray Vella; Eric Hoffmann. Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), Neal Fontana, Nita Le, Rich Michiel, Leo Nietzer, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne D'Aprix, Kathleen Moore, Andrew Popper, (Assoc.); Sarah Greenberg Morse (Asst.); M. Margarita Eiroa (Traffic mgr.); Burtie Hughes, Mindy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.), Karen Butcher, Francisco Cardoza, Thomas R. Dowd, Stephen R. Lebron, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Ilse V. Walton (Edit map mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Y. Steve Ben-Ari, Yo-Lynn Hagood, Steven McCarthy, Anoop Srivastava, Craig Sturgis, Mauro Vaisman
ONLINE: Michael Mercurio (Managing ed.), Arthur Eves (Creative dir.), A. Peter Clem, John A. Dierdorff, John Johnsdorf, Will Andrews, Heather Barry, Jaime Beauchamp, Jane Black, Joleen Colpa, Roger Franklin, Brian Hinds, Olga Kharif, B. Kite, Matt Kopit, James Kutz, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Arney Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksanaj
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad. Boston: William C. Symonds (Mgr.), Faith Keenan. Chicago: Joseph Weber (Mgr.), Roger O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Berner, Pallavi Gogoi. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), David Welch. Los Angeles: Ronald Grover (Mgr.), Larry Armstrong, Christopher Palmeri (Sr. correspondents), Arlene Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert O. Hof (Mgr.), Linda Himmelstein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan D'C. Hamilton, Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.); Rich Miller (Sr. writer); Richard S. Ounham, Howard Gleckman, Mike McNamee (Sr. correspondents); Amy Borus, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Woellert, Catherine Yang, Douglas Harbrecht (Online: Sr. news ed.), Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Christine Tierney. Hong Kong: Mark L. Clifford (Mgr.), Frederik Balfour, Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Geri Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.), Carol Matlack, Andy Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Ilhwan. Singapore: Michael Shan (Mgr.). Tokyo: Brian Bremner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kunii
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager: Barbara Boynton. Communications: Heather Carpenter, Christine Fountaine, Andrew Palladino, Nancy Sheed. Information Services: Jamie B. Russell (Director). Susan Rutledge (Research mgr.), John Cady (Technology mgr.), Fred Katzenberg, David Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summerson

HOW RESPONSIVE SHOULD THE FED BE?

Re "The future of the Fed" (Cover Story, Dec. 16), I write as one who was employed by the Federal Reserve Banks of Chicago and Dallas from 1946-1980, working largely in the monetary-policy area, attending all meetings of the Federal Open Market Committee during much of this period. *BusinessWeek* conveys the impression that monetary policy has the capacity to exercise essentially complete control of the economy, i.e., gross domestic product, inflation, unemployment, balance of payments, dollar exchange rate. It doesn't.

Efforts to fine-tune the economy cause more harm than benefit. The real economy cannot respond quickly to changes in economic policy and should not be expected to. Rigid rules for monetary policy will not work and will not be tolerated politically because of severe side effects in the short term to realize specific targets for money stock, inflation, commodity prices, etc.

The idea that monetary policy actions must be known well in advance in order to avoid destabilizing the economy embodies unrealistic views of our ability to forecast and of the potency of monetary policy to override effects of fiscal policy, wage practices, bubbles, etc. Flexible policy based on current analysis and seasoned judgment of politically independent systems holds the best hope.

Ernest T. Baughman
 Scottsdale, Ariz.

Editor's note: The writer was president of the Federal Reserve Bank of Dallas from 1975-80.

In enumerating the three schools of thought vying for primacy in a post-Greenspan period, you fail to identify the one type of policy that has recently

prevailed and will continue to do so can be called pragmatism, or "realism" responsiveness to changing economic circumstances." The past two decades have been characterized by lesser severity of the business cycle and lower average inflation than the preceding years. Significantly, the Fed's response improved when it loosened the restrictive ideological blinders of the gold standard, Keynesian demand-side management, and monetarism. Dogma broke down under real-world pressure.

Hunting for and seeking to curb bubbles has to come second to the general objectives of promoting growth and curbing inflation. Flexible and adjustable monetary policy is preferable to the futile search for the philosophers' stone.

Francis H. Schuchman
 Ridgewood, N.Y.

Back in 1991, the Fed's Small Business Advisory Council advised the Board of Governors one year in advance to face the impact of technology-driven productivity gains into its econometric model and to shift away from its anti-inflationary policy bias. The Fed's delay in reducing interest rates cost the economy severely (and cost George H.W. Bush the Presidency). Our current recession could have been far less severe had Alan Greenspan used the monetary policy tools at his disposal to send a strong message to the markets.

Les Larsen
 Golden, Colo.

Editor's note: The writer is a former chairman of the Fed's Small Business Advisory Council.

ANOTHER TAKE ON KOZLOWSKI'S RISE AT TYCO

BusinessWeek has presented a highly inaccurate and misleading version

PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carvalho
VP, MARKETING: Patricia Crocker France

VPS, SALES: Mark A. Flinn (Eastern region and BWT), Grant A. (Midwest reg.), Robert J. Maund (West reg.), Lou Tosto (Eastern reg.)
VP, INTERNATIONAL/NORTH AMERICA SALES: Rik Gates
VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maraviglia
VP, MANAGING DIRECTOR-ASIA: Alan Lamm
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, CONSUMER MARKETING: Joyce Swingle
VP, BUSINESS DEVELOPMENT: Geoffrey D. Broderick

The McGraw-Hill Companies

BusinessWeek
 JANUARY 13, 2003 (ISSN 0007-7135) *** 3815

Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc.
 Executive Editor: James H. McGraw (1860-1948).
 Executive Editor: John J. McGraw (1948-1998).
 Executive Editor: John J. McGraw (1998-1999).
 Executive Editor: John J. McGraw (1999-2000).
 Executive Editor: John J. McGraw (2000-2001).
 Executive Editor: John J. McGraw (2001-2002).
 Executive Editor: John J. McGraw (2002-2003).
 Executive Editor: John J. McGraw (2003-2004).
 Executive Editor: John J. McGraw (2004-2005).
 Executive Editor: John J. McGraw (2005-2006).
 Executive Editor: John J. McGraw (2006-2007).
 Executive Editor: John J. McGraw (2007-2008).
 Executive Editor: John J. McGraw (2008-2009).
 Executive Editor: John J. McGraw (2009-2010).
 Executive Editor: John J. McGraw (2010-2011).
 Executive Editor: John J. McGraw (2011-2012).
 Executive Editor: John J. McGraw (2012-2013).
 Executive Editor: John J. McGraw (2013-2014).
 Executive Editor: John J. McGraw (2014-2015).
 Executive Editor: John J. McGraw (2015-2016).
 Executive Editor: John J. McGraw (2016-2017).
 Executive Editor: John J. McGraw (2017-2018).
 Executive Editor: John J. McGraw (2018-2019).
 Executive Editor: John J. McGraw (2019-2020).
 Executive Editor: John J. McGraw (2020-2021).
 Executive Editor: John J. McGraw (2021-2022).
 Executive Editor: John J. McGraw (2022-2023).
 Executive Editor: John J. McGraw (2023-2024).
 Executive Editor: John J. McGraw (2024-2025).
 Executive Editor: John J. McGraw (2025-2026).
 Executive Editor: John J. McGraw (2026-2027).
 Executive Editor: John J. McGraw (2027-2028).
 Executive Editor: John J. McGraw (2028-2029).
 Executive Editor: John J. McGraw (2029-2030).
 Executive Editor: John J. McGraw (2030-2031).
 Executive Editor: John J. McGraw (2031-2032).
 Executive Editor: John J. McGraw (2032-2033).
 Executive Editor: John J. McGraw (2033-2034).
 Executive Editor: John J. McGraw (2034-2035).
 Executive Editor: John J. McGraw (2035-2036).
 Executive Editor: John J. McGraw (2036-2037).
 Executive Editor: John J. McGraw (2037-2038).
 Executive Editor: John J. McGraw (2038-2039).
 Executive Editor: John J. McGraw (2039-2040).
 Executive Editor: John J. McGraw (2040-2041).
 Executive Editor: John J. McGraw (2041-2042).
 Executive Editor: John J. McGraw (2042-2043).
 Executive Editor: John J. McGraw (2043-2044).
 Executive Editor: John J. McGraw (2044-2045).
 Executive Editor: John J. McGraw (2045-2046).
 Executive Editor: John J. McGraw (2046-2047).
 Executive Editor: John J. McGraw (2047-2048).
 Executive Editor: John J. McGraw (2048-2049).
 Executive Editor: John J. McGraw (2049-2050).
 Executive Editor: John J. McGraw (2050-2051).
 Executive Editor: John J. McGraw (2051-2052).
 Executive Editor: John J. McGraw (2052-2053).
 Executive Editor: John J. McGraw (2053-2054).
 Executive Editor: John J. McGraw (2054-2055).
 Executive Editor: John J. McGraw (2055-2056).
 Executive Editor: John J. McGraw (2056-2057).
 Executive Editor: John J. McGraw (2057-2058).
 Executive Editor: John J. McGraw (2058-2059).
 Executive Editor: John J. McGraw (2059-2060).
 Executive Editor: John J. McGraw (2060-2061).
 Executive Editor: John J. McGraw (2061-2062).
 Executive Editor: John J. McGraw (2062-2063).
 Executive Editor: John J. McGraw (2063-2064).
 Executive Editor: John J. McGraw (2064-2065).
 Executive Editor: John J. McGraw (2065-2066).
 Executive Editor: John J. McGraw (2066-2067).
 Executive Editor: John J. McGraw (2067-2068).
 Executive Editor: John J. McGraw (2068-2069).
 Executive Editor: John J. McGraw (2069-2070).
 Executive Editor: John J. McGraw (2070-2071).
 Executive Editor: John J. McGraw (2071-2072).
 Executive Editor: John J. McGraw (2072-2073).
 Executive Editor: John J. McGraw (2073-2074).
 Executive Editor: John J. McGraw (2074-2075).
 Executive Editor: John J. McGraw (2075-2076).
 Executive Editor: John J. McGraw (2076-2077).
 Executive Editor: John J. McGraw (2077-2078).
 Executive Editor: John J. McGraw (2078-2079).
 Executive Editor: John J. McGraw (2079-2080).
 Executive Editor: John J. McGraw (2080-2081).
 Executive Editor: John J. McGraw (2081-2082).
 Executive Editor: John J. McGraw (2082-2083).
 Executive Editor: John J. McGraw (2083-2084).
 Executive Editor: John J. McGraw (2084-2085).
 Executive Editor: John J. McGraw (2085-2086).
 Executive Editor: John J. McGraw (2086-2087).
 Executive Editor: John J. McGraw (2087-2088).
 Executive Editor: John J. McGraw (2088-2089).
 Executive Editor: John J. McGraw (2089-2090).
 Executive Editor: John J. McGraw (2090-2091).
 Executive Editor: John J. McGraw (2091-2092).
 Executive Editor: John J. McGraw (2092-2093).
 Executive Editor: John J. McGraw (2093-2094).
 Executive Editor: John J. McGraw (2094-2095).
 Executive Editor: John J. McGraw (2095-2096).
 Executive Editor: John J. McGraw (2096-2097).
 Executive Editor: John J. McGraw (2097-2098).
 Executive Editor: John J. McGraw (2098-2099).
 Executive Editor: John J. McGraw (2099-2100).
 Executive Editor: John J. McGraw (2100-2101).
 Executive Editor: John J. McGraw (2101-2102).
 Executive Editor: John J. McGraw (2102-2103).
 Executive Editor: John J. McGraw (2103-2104).
 Executive Editor: John J. McGraw (2104-2105).
 Executive Editor: John J. McGraw (2105-2106).
 Executive Editor: John J. McGraw (2106-2107).
 Executive Editor: John J. McGraw (2107-2108).
 Executive Editor: John J. McGraw (2108-2109).
 Executive Editor: John J. McGraw (2109-2110).
 Executive Editor: John J. McGraw (2110-2111).
 Executive Editor: John J. McGraw (2111-2112).
 Executive Editor: John J. McGraw (2112-2113).
 Executive Editor: John J. McGraw (2113-2114).
 Executive Editor: John J. McGraw (2114-2115).
 Executive Editor: John J. McGraw (2115-2116).
 Executive Editor: John J. McGraw (2116-2117).
 Executive Editor: John J. McGraw (2117-2118).
 Executive Editor: John J. McGraw (2118-2119).
 Executive Editor: John J. McGraw (2119-2120).
 Executive Editor: John J. McGraw (2120-2121).
 Executive Editor: John J. McGraw (2121-2122).
 Executive Editor: John J. McGraw (2122-2123).
 Executive Editor: John J. McGraw (2123-2124).
 Executive Editor: John J. McGraw (2124-2125).
 Executive Editor: John J. McGraw (2125-2126).
 Executive Editor: John J. McGraw (2126-2127).
 Executive Editor: John J. McGraw (2127-2128).
 Executive Editor: John J. McGraw (2128-2129).
 Executive Editor: John J. McGraw (2129-2130).
 Executive Editor: John J. McGraw (2130-2131).
 Executive Editor: John J. McGraw (2131-2132).
 Executive Editor: John J. McGraw (2132-2133).
 Executive Editor: John J. McGraw (2133-2134).
 Executive Editor: John J. McGraw (2134-2135).
 Executive Editor: John J. McGraw (2135-2136).
 Executive Editor: John J. McGraw (2136-2137).
 Executive Editor: John J. McGraw (2137-2138).
 Executive Editor: John J. McGraw (2138-2139).
 Executive Editor: John J. McGraw (2139-2140).
 Executive Editor: John J. McGraw (2140-2141).
 Executive Editor: John J. McGraw (2141-2142).
 Executive Editor: John J. McGraw (2142-2143).
 Executive Editor: John J. McGraw (2143-2144).
 Executive Editor: John J. McGraw (2144-2145).
 Executive Editor: John J. McGraw (2145-2146).
 Executive Editor: John J. McGraw (2146-2147).
 Executive Editor: John J. McGraw (2147-2148).
 Executive Editor: John J. McGraw (2148-2149).
 Executive Editor: John J. McGraw (2149-2150).
 Executive Editor: John J. McGraw (2150-2151).
 Executive Editor: John J. McGraw (2151-2152).
 Executive Editor: John J. McGraw (2152-2153).
 Executive Editor: John J. McGraw (2153-2154).
 Executive Editor: John J. McGraw (2154-2155).
 Executive Editor: John J. McGraw (2155-2156).
 Executive Editor: John J. McGraw (2156-2157).
 Executive Editor: John J. McGraw (2157-2158).
 Executive Editor: John J. McGraw (2158-2159).
 Executive Editor: John J. McGraw (2159-2160).
 Executive Editor: John J. McGraw (2160-2161).
 Executive Editor: John J. McGraw (2161-2162).
 Executive Editor: John J. McGraw (2162-2163).
 Executive Editor: John J. McGraw (2163-2164).
 Executive Editor: John J. McGraw (2164-2165).
 Executive Editor: John J. McGraw (2165-2166).
 Executive Editor: John J. McGraw (2166-2167).
 Executive Editor: John J. McGraw (2167-2168).
 Executive Editor: John J. McGraw (2168-2169).
 Executive Editor: John J. McGraw (2169-2170).
 Executive Editor: John J. McGraw (2170-2171).
 Executive Editor: John J. McGraw (2171-2172).
 Executive Editor: John J. McGraw (2172-2173).
 Executive Editor: John J. McGraw (2173-2174).
 Executive Editor: John J. McGraw (2174-2175).
 Executive Editor: John J. McGraw (2175-2176).
 Executive Editor: John J. McGraw (2176-2177).
 Executive Editor: John J. McGraw (2177-2178).
 Executive Editor: John J. McGraw (2178-2179).
 Executive Editor: John J. McGraw (2179-2180).
 Executive Editor: John J. McGraw (2180-2181).
 Executive Editor: John J. McGraw (2181-2182).
 Executive Editor: John J. McGraw (2182-2183).
 Executive Editor: John J. McGraw (2183-2184).
 Executive Editor: John J. McGraw (2184-2185).
 Executive Editor: John J. McGraw (2185-2186).
 Executive Editor: John J. McGraw (2186-2187).
 Executive Editor: John J. McGraw (2187-2188).
 Executive Editor: John J. McGraw (2188-2189).
 Executive Editor: John J. McGraw (2189-2190).
 Executive Editor: John J. McGraw (2190-2191).
 Executive Editor: John J. McGraw (2191-2192).
 Executive Editor: John J. McGraw (2192-2193).
 Executive Editor: John J. McGraw (2193-2194).
 Executive Editor: John J. McGraw (2194-2195).
 Executive Editor: John J. McGraw (2195-2196).
 Executive Editor: John J. McGraw (2196-2197).
 Executive Editor: John J. McGraw (2197-2198).
 Executive Editor: John J. McGraw (2198-2199).
 Executive Editor: John J. McGraw (2199-2200).
 Executive Editor: John J. McGraw (2200-2201).
 Executive Editor: John J. McGraw (2201-2202).
 Executive Editor: John J. McGraw (2202-2203).
 Executive Editor: John J. McGraw (2203-2204).
 Executive Editor: John J. McGraw (2204-2205).
 Executive Editor: John J. McGraw (2205-2206).
 Executive Editor: John J. McGraw (2206-2207).
 Executive Editor: John J. McGraw (2207-2208).
 Executive Editor: John J. McGraw (2208-2209).
 Executive Editor: John J. McGraw (2209-2210).
 Executive Editor: John J. McGraw (2210-2211).
 Executive Editor: John J. McGraw (2211-2212).
 Executive Editor: John J. McGraw (2212-2213).
 Executive Editor: John J. McGraw (2213-2214).
 Executive Editor: John J. McGraw (2214-2215).
 Executive Editor: John J. McGraw (2215-2216).
 Executive Editor: John J. McGraw (2216-2217).
 Executive Editor: John J. McGraw (2217-2218).
 Executive Editor: John J. McGraw (2218-2219).
 Executive Editor: John J. McGraw (2219-2220).
 Executive Editor: John J. McGraw (2220-2221).
 Executive Editor: John J. McGraw (2221-2222).
 Executive Editor: John J. McGraw (2222-2223).
 Executive Editor: John J. McGraw (2223-2224).
 Executive Editor: John J. McGraw (2224-2225).
 Executive Editor: John J. McGraw (2225-2226).
 Executive Editor: John J. McGraw (2226-2227).
 Executive Editor: John J. McGraw (2227-2228).
 Executive Editor: John J. McGraw (2228-2229).
 Executive Editor: John J. McGraw (2229-2230).
 Executive Editor: John J. McGraw (2230-2231).
 Executive Editor: John J. McGraw (2231-2232).
 Executive Editor: John J. McGraw (2232-2233).
 Executive Editor: John J. McGraw (2233-2234).
 Executive Editor: John J. McGraw (2234-2235).
 Executive Editor: John J. McGraw (2235-2236).
 Executive Editor: John J. McGraw (2236-2237).
 Executive Editor: John J. McGraw (2237-2238).
 Executive Editor: John J. McGraw (2238-2239).
 Executive Editor: John J. McGraw (2239-2240).
 Executive Editor: John J. McGraw (2240-2241).
 Executive Editor: John J. McGraw (2241-2242).
 Executive Editor: John J. McGraw (2242-2243).
 Executive Editor: John J. McGraw (2243-2244).
 Executive Editor: John J. McGraw (2244-2245).
 Executive Editor: John J. McGraw (2245-2246).
 Executive Editor: John J. McGraw (2246-2247).
 Executive Editor: John J. McGraw (2247-2248).
 Executive Editor: John J. McGraw (2248-2249).
 Executive Editor: John J. McGraw (2249-2250).
 Executive Editor: John J. McGraw (2250-2251).
 Executive Editor: John J. McGraw (2251-2252).
 Executive Editor: John J. McGraw (2252-2253).
 Executive Editor: John J. McGraw (2253-2254).
 Executive Editor: John J. McGraw (2254-2255).
 Executive Editor: John J. McGraw (2255-2256).
 Executive Editor: John J. McGraw (2256-2257).
 Executive Editor: John J. McGraw (2257-2258).
 Executive Editor: John J. McGraw (2258-2259).
 Executive Editor: John J. McGraw (2259-2260).
 Executive Editor: John J. McGraw (2260-2261).
 Executive Editor: John J. McGraw (2261-2262).
 Executive Editor: John J. McGraw (2262-2263).
 Executive Editor: John J. McGraw (2263-2264).
 Executive Editor: John J. McGraw (2264-2265).
 Executive Editor: John J. McGraw (2265-2266).
 Executive Editor: John J. McGraw (2266-2267).
 Executive Editor: John J. McGraw (2267-2268).
 Executive Editor: John J. McGraw (2268-2269).
 Executive Editor: John J. McGraw (2269-2270).
 Executive Editor: John J. McGraw (2270-2271).
 Executive Editor: John J. McGraw (2271-2272).
 Executive Editor: John J. McGraw (2272-2273).
 Executive Editor: John J. McGraw (2273-2274).
 Executive Editor: John J. McGraw (2274-2275).
 Executive Editor: John J. McGraw (2275-2276).
 Executive Editor: John J. McGraw (2276-2277).
 Executive Editor: John J. McGraw (2277-2278).
 Executive Editor: John J. McGraw (2278-2279).
 Executive Editor: John J. McGraw (2279-2280).
 Executive Editor: John J. McGraw (2280-2281).
 Executive Editor: John J. McGraw (2281-2282).
 Executive Editor: John J. McGraw (2282-2283).
 Executive Editor: John J. McGraw (2283-2284).
 Executive Editor: John J. McGraw (2284-2285).
 Executive Editor: John J. McGraw (2285-2286).
 Executive Editor: John J. McGraw (2286-2287).
 Executive Editor: John J. McGraw (2287-2288).
 Executive Editor: John J. McGraw (2288-2289).
 Executive Editor: John J. McGraw (2289-2290).
 Executive Editor: John J. McGraw (2290-2291).
 Executive Editor: John J. McGraw (2291-2292).
 Executive Editor: John J. McGraw (2292-2293).
 Executive Editor: John J. McGraw (2293-2294).
 Executive Editor: John J. McGraw (2294-2295).
 Executive Editor: John J. McGraw (2295-2296).
 Executive Editor: John J. McGraw (2296-2297).
 Executive Editor: John J. McGraw (2297-2298).
 Executive Editor: John J. McGraw (2298-2299).
 Executive Editor: John J. McGraw (2299-2300).
 Executive Editor: John J. McGraw (2300-2301).
 Executive Editor: John J. McGraw (2301-2302).
 Executive Editor: John J. McGraw (2302-2303).
 Executive Editor: John J. McGraw (2303-2304).
 Executive Editor: John J. McGraw (2304-2305).
 Executive Editor: John J. McGraw (2305-2306).
 Executive Editor: John J. McGraw (2306-2307).
 Executive Editor: John J. McGraw (2307-2308).
 Executive Editor: John J. McGraw (2308-2309).
 Executive Editor: John J. McGraw (2309-2310).
 Executive Editor: John J. McGraw (2310-2311).
 Executive Editor: John J. McGraw (2311-2312).
 Executive Editor: John J. McGraw (2312-2313).
 Executive Editor: John J. McGraw (2313-2314).
 Executive Editor: John J. McGraw (2314-2315).
 Executive Editor: John J. McGraw (2315-2316).
 Executive Editor: John J. McGraw (2316-2317).
 Executive Editor: John J. McGraw (2317-2318).
 Executive Editor: John J. McGraw (2318-2319).
 Executive Editor: John J. McGraw (2319-2320).
 Executive Editor: John J. McGraw (2320-2321).
 Executive Editor: John J. McGraw (2321-2322).
 Executive Editor: John J. McGraw (2322-2323).
 Executive Editor: John J. McGraw (2323-2324).
 Executive Editor: John J. McGraw (2324-2325).
 Executive Editor: John J. McGraw (2325-2326).
 Executive Editor: John J. McGraw (2326-2327).
 Executive Editor: John J. McGraw (2327-2328).
 Executive Editor: John J. McGraw (2328-2329).
 Executive Editor: John J. McGraw (2329-2330).
 Executive Editor: John J. McGraw (2330-2331).
 Executive Editor: John J. McGraw (2331-2332).
 Executive Editor: John J. McGraw (2332-2333).
 Executive Editor: John J. McGraw (2333-2334).
 Executive Editor: John J. McGraw (2334-2335).
 Executive Editor: John J. McGraw (2335-2336).
 Executive Editor: John J. McGraw (2336-2337).
 Executive Editor: John J. McGraw (2337-2338).
 Executive Editor: John J. McGraw (2338-2339).
 Executive Editor: John J. McGraw (2339-2340).
 Executive Editor: John J. McGraw (2340-2341).
 Executive Editor: John J. McGraw (2341-2342).
 Executive Editor: John J. McGraw (2342-2343).
 Executive Editor: John J. McGraw (2343-2344).
 Executive Editor: John J. McGraw (2344-2345).
 Executive Editor: John J. McGraw (2345-2346).
 Executive Editor: John J. McGraw (2346-2347).
 Executive Editor: John J. McGraw (2347-2348).
 Executive Editor: John J. McGraw (2348-2349).
 Executive Editor: John J. McGraw (2349-2350).
 Executive Editor: John J. McGraw (2350-2351).
 Executive Editor: John J. McGraw (2351-2352).
 Executive



YOUR
CUSTOMERS
EXPECT
YOUR ENTIRE
ENTERPRISE
TO REVOLVE
AROUND
THEM.

(SOUNDS LIKE A SOLID
BUSINESS PLAN TO US.)

Every customer is an investment. But are you investing wisely? mySAP™ CRM, the only open and integrated CRM solution, makes valuable customer data available to your entire organization. In real time. So the back office knows what the front office knows, which makes it easier to give customers what they need. A lot more efficiently. And for a lot less money. Visit sap.com or call 800 880 1727 to find out more about mySAP CRM.

THE BEST-RUN BUSINESSES RUN SAP



Software quality ↑ 80%

Developer productivity ↑ 300%

ROI ↑ 1400%

Testing time ↓ 50%

Development cycle ↓ 50%

Unusable bugs ↓ 80%



Lies, damn lies and statistics, you say? Some of our customers used to be cynical, too. Before they were customers. But then they started sending us these numbers. Telling us that the results of using our best practices, integrated tools and services exceeded their expectations. Cutting test time, decreasing development cycles and reducing bugs. Freeing their teams from the obstacles that hinder software development. Need more evidence? There's plenty available at www.rational.com/customersuccess4.

be liberated

CORRECTIONS & CLARIFICATIONS

When bulls get the hook, it may be time to buy" (Finance, Dec. 23), Ryan Beck, Co. chief market strategist Joseph V. Mottipaglia's 12-month target for the Standard & Poor's 500-stock index should have been 1150, a 28% increase.

Annis Kozlowski's 1992 succession to Tyco as chief executive officer of Tyco International Ltd. ("The rise and fall of Annis Kozlowski," Cover Story, Dec. 10). The facts are straightforward and well-known to everyone who had a role in these events.

In 1990, the board and I discussed my intention to retire in two years from my executive role at the company. To ensure an orderly transition when I retired, we agreed on a plan that would put Mr. Kozlowski in a position to succeed me as CEO in 1992. In keeping with that plan, we named Mr. Kozlowski president and chief operating officer, and, two years later, as planned, we appointed him CEO. There was no backroom intrigue or "ouster" that brought this about. I cannot understand why *BusinessWeek* would concoct an alternative version of these events unless it wanted to paint Mr. Kozlowski as more Machiavellian than he really was and thereby create a more compelling story. Also, there was nothing at all "remarkable" about the fact that I continued to serve on Tyco's board for many years after relinquishing my position as CEO because I believed and continue to believe strongly in the company regardless of the issues surrounding Mr. Kozlowski's departure.

John F. Fort
Houston

Editor's note: BusinessWeek's account is based on interviews of other sources with knowledge of the board's action to promote Kozlowski.

GREATER CHINA: PROGRESS AND MISPLACED ANXIETY

As long as pragmatic leadership remains, China will flourish and progress while the countries ruled by religious conservatives will remain in poverty (Greater China," Special Report, Dec. 10). Could *BusinessWeek* write a similarly hopeful report about the once-great countries of Egypt, Persia (Iran), Syria, Iraq, or Pakistan? In ancient history, these were the world powers. In the Dark Ages, while the Inquisition raged in Europe, progress was

stymied. As long as a radical religion suppresses the populations in these countries, they will not prosper, either. All they can generate is hate—based on jealousy—and terrorism.

Robert Marx
Christchurch, New Zealand

If China is Taiwan's top export market, the destination of its foreign direct investment, and the top choice for foreign university education, then what is the basis of U.S. concern about China's invading Taiwan? The 500,000-plus Taiwanese who have become residents in China as a result of Taiwanese investment would indicate that it is Taiwan that has invaded China.

Why is Washington obsessing about the dubious notion of China invading Taiwan? The facts presented and extrapolated say otherwise.

Mohamed Cassam
Annandale, Va.

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archives starting in 1991 are available on the World Wide Web at: www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

We prefer to receive letters via e-mail, without attachments. Writers should disclose any connection or relationship with the subject of their comments. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

E-mail: bwreader@businessweek.com

Fax: (212) 512-6458

Mail: *BusinessWeek* Readers Report, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>

(click "Manage Your Account")

For individual subscriptions, corporate subscriptions, and other inquiries.

Phone: (800) 635-1200 Fax: (641) 842-6101

E-mail: bwcustomerservice@neodata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

E-mail: bw_group@businessweek.com

Latin America

Phone: Int +44 1444 475 649

Fax: Int +44 1444 475 506

E-Mail: Businessweek.subs@qss-uk.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

E-mail: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use;

\$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

E-mail: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm

RATIONAL RESULTS.

What happens when a global systems integrator employs standard tools and a scalable repeatable process for software development? Productivity and quality go up and cost goes down.

Cap Gemini Ernst & Young (CGE&Y) offers management and IT consulting, outsourcing services, systems integration, and software development on a global scale. So its staff of 55,000 has to be deployable worldwide with minimal ramp time. When CGE&Y standardized on Rational Unified Process and Rational Suite tools for software development, the results were world-class:

■ Achieved 23% productivity gain by combining Rational Unified Process and Rational tools with innovative business practices at CGE&Y Accelerated Delivery Centers.

■ Moved to a 24X7 globally distributed development model that leverages common tools and a standard methodology to offer clients onsite, offsite, or offshore production around the clock.

■ Maximized project predictability and client confidence while minimizing cost and risk by establishing Rational Unified Process and Rational Suite as standards for process, architectures and tools.

The bottom line? Greater speed, quality, savings, client value—and profit.

At Rational, results are what it's all about. Need more evidence? You'll find it at www.rational.com/roisuccess2.

Rational

the software development company

Rational, the Rational logo, Rational Unified Process and Rational Suite among others, are trademarks or registered trademarks of Rational Software Corporation in the United States and in other countries. ALL RIGHTS RESERVED. Made in the U.S.A. ©2002 Rational Software Corporation.

STARVING TO DEATH ON \$200 MILLION
The Short, Absurd Life of *The Industry Standard*
 By James Ledbetter
 PublicAffairs • 291pp • \$26

FROM DOT-BOMBAST TO DOT-BOMB

Like Sissy Spacek's hand popping up from the grave at the end of Brian DePalma's classic horror flick *Carrie*, *The Industry Standard* continues to assert itself long after its demise. This is partly a consequence of nostalgia for the tech boom, of which magazines were a central cog. Pubs like *The Standard*, *Business 2.0*, *The Web Magazine*, and *Wired* helped blow up the bubble, and their short-lived success mirrored the Internet's rise. But *The Standard* distinguished itself in one key way: In 2000, it sold 7,400-plus ad pages, more than any magazine in U.S. history. Then the bubble burst. By August, 2001, *The Industry Standard* had declared bankruptcy.

When I heard that former *Standard* staffer James Ledbetter was writing a book about the magazine's death, my first thought was: Now there's a really bad idea. (My second thought, reflecting on his advance: Why didn't I get the contract?) As with many of the boom-era flameouts, *The Standard's* demise had been dissected endlessly in the media. And aside from former staffers and media mavens, it seemed there wouldn't be much of an audience for *Starving to Death on \$200 Million*.

After reading the volume, however, I have to say it's a good, if incomplete, chronicle of the magazine's fast rise and furious fall. Ledbetter, *The Standard's* New York bureau chief who later went on to found its ill-fated British edition, is a smart reporter with a flair for spinning a yarn. He has talked to all the major players, dug up some revealing details, and strung together the whole story in an engaging, memoir-like fashion. Intriguingly, he sets up the narrative like a murder mystery: Did *The Standard* overdose on lavish spending and shoddy management? Or was it snuffed out by its low-profile yet powerful financier-partner, publishing em-

pire International Data Group?

The answer, of course, is both. The book's greatest strength—and the source of its drama—is the tension between *The Standard* and IDG. At all magazines, there's friction between the editorial and the business sides. But this was a marriage made in hell. Time and again, *The Standard's* founder, former *Wired* editor John Battelle, butted heads with IDG management, particularly with its founder and chairman, Patrick J. McGovern, a.k.a. Uncle Pat.

To Battelle, a brilliant editor who was "always impatient with the present," IDG didn't get the Net, even though the parent company had conceived the idea of an Internet-business magazine and recruited Battelle to hatch it. To IDG, a penny-pinching publisher obsessed with turning a profit, "no amount of financial success could erase Battelle's sins of arrogance." Ever cocky, Battelle once boasted to staffers that the publication would have 900 employees and \$1 billion in sales by 2005. Meanwhile, IDG got little credit. At *The Standard's* second-anniversary party, Editor-in-Chief Jonathan Weber says McGovern's wife noted that there were no banners mentioning IDG. "Why wasn't IDG acknowledged?" she asked. Weber had no response.

Ledbetter nails the *Standard* team (and himself) for excessive spending, shoddy management, and journalistic compromises. At *The Standard's* "Global Internet Summit" in May, 2000, the company flew more than 40 members of its staff, most in business class, to the conference in Barcelona's sumptuous Hotel Arts. It spent about \$5 million on TV ads. And it blew more than \$8 million on software that promised to match companies' products with potential buy-

ers but that never worked. It built up a huge Web site that never turned a profit. And in one of the book's best previously unreported details, Ledbetter describes how *The Standard* launched its European edition without creating a budget and without realizing that IDG had already licensed the name in several countries. This meant the new magazine would be competing against other *Industry Standards* on newsstands. Many of these same mistakes, Ledbetter notes, were made by *Wired*: Both followed the management-by-IPO philosophy that required the headlong pursuit of growth with little concern for the bottom line.

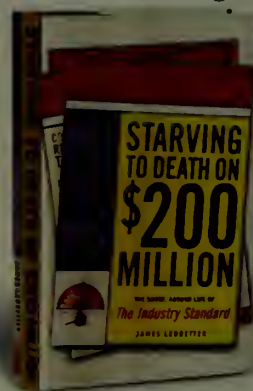
Even though he never produces a smoking gun, Ledbetter is persuasive in arguing that IDG drove *The Standard* into bankruptcy, quoting one parent company exec as saying this was a "better option than accepting more outside financing and assuming huge liabilities. Along with the culture clash, IDG had other problems, including *The Standard's* commitment to more than \$56 million in real estate leases that it couldn't escape. Adding insult to injury, in bankruptcy court IDG bought *The Standard's* assets for \$900,000, mostly to protect its overseas trademark rights.

In spite of such minor revelations, Ledbetter's account isn't a bull's-eye. It gets off to a slow start as the author tells how he discovered the Internet—1998. And because Ledbetter never worked at *The Standard's* San Francisco mother ship, his experience comes across as peripheral. The author could have remedied this flaw with more interviews or research but elected not to do so. Moreover, there's a shortage of spicy details that could have broadened the book's appeal. As one former staffer put it to this reviewer: "He missed the sex."

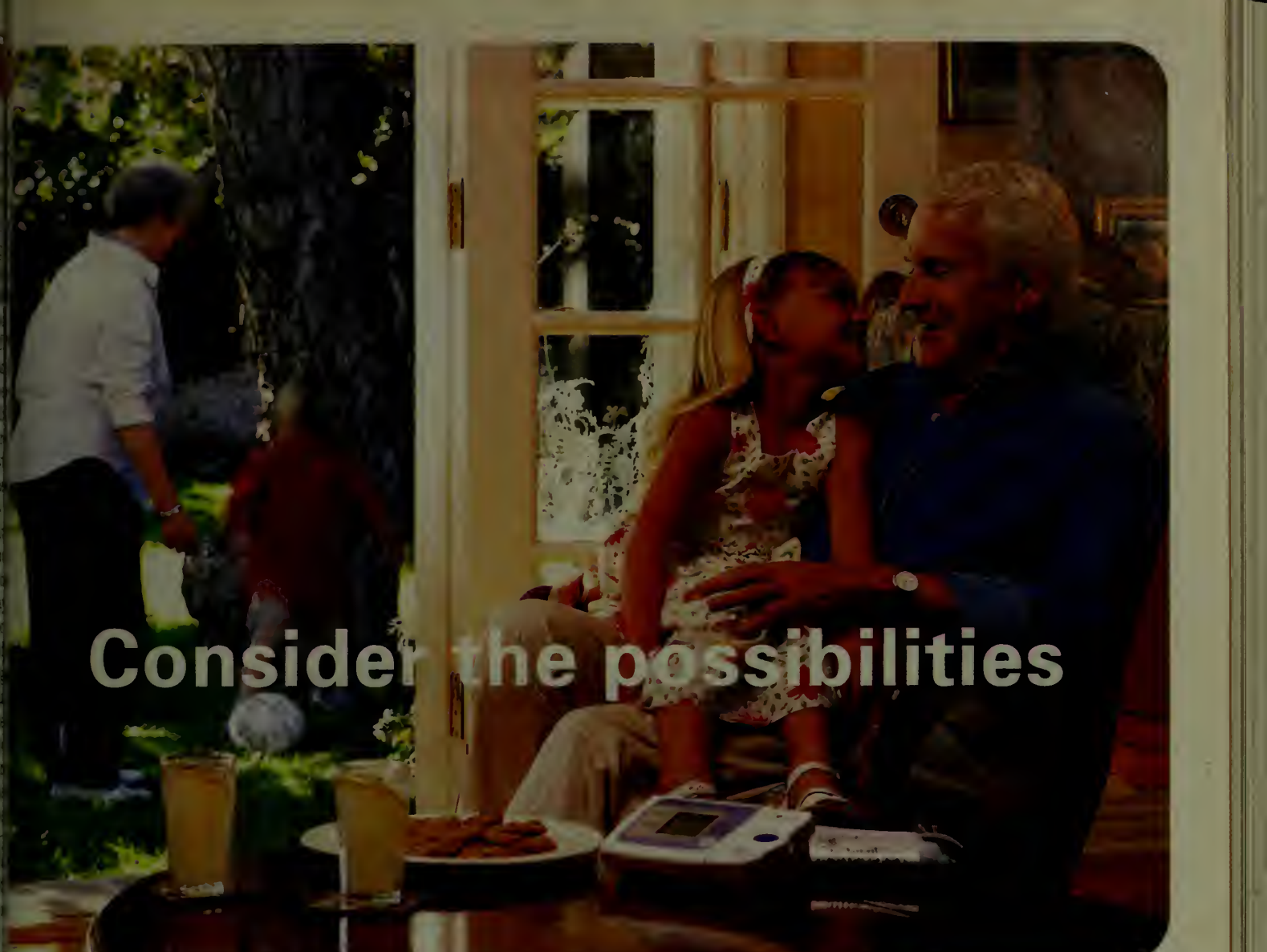
Still, given the scarcity of accounts that capture the *Sturm und Drang* of the Internet boom, *Starving to Death* makes a worthwhile contribution. If you want to know what the late-'90s fus was all about, *Starving to Death* offers a serviceable account of the madness.

BY SPENCER E. ANT

Computers editor Ante worked for IDG in the mid-1990s and free-lance articles for *The Industry Standard*.



THE INDUSTRY STANDARD FELL IGNOBLY, THE AUTHOR SAYS, BUT ITS PUBLISHER GAVE IT A PUSH



Consider the possibilities

Healthcare support for a new outlook on life

What could be more rewarding than sharing time with someone you love? It's the inspiration behind our Sensing and Control Technology and our innovative line of healthcare equipment. Today, Omron is the world's leading manufacturer of digital blood pressure monitors. And with operations around the globe, we seek to provide each customer with a solution that meets his or her specific needs.



#1 Selling Digital Blood Pressure Monitor in the USA.



OMRON

Sensing tomorrow™

BY STEPHEN H. WILDSTROM

tech&you@businessweek.com

A FIREFIGHT OVER BURNING DVDs



321 Studios' software is simple to use. But the movie industry wants it off the market

DVD x Copy from 321 Studios (www.dvdx-copy.com) is a nifty \$99.99 program that lets you use a DVD burner on your Windows XP or 2000 computer to make a copy of movies or other DVDs. It's convenient, for example, to make a copy of a DVD to watch on your laptop during a long flight so you won't risk losing or damaging the expensive original. It's also handy for making a copy to give to a friend, and there's the rub: The movie industry thinks the program violates the Digital Millennium Copyright Act of 1998 (DMCA) and wants a federal court to order it off the market.

The law on this subject is a muddle. There is a long-recognized "fair use" right under copyright law for individuals to copy material for their personal use. But the DMCA allows copyright holders to use "technological measures" to protect the content and makes it illegal, and under some conditions criminal, to tamper with those protections.

There are a lot of programs you can download from the Internet that will let you copy DVDs, but they seem aimed at those with considerable technical skills. DVD x Copy does a good job of copying DVDs and making it simple. You put the original DVD in your drive, and the program computes whether it will require one or two disks to make a copy. (Writable DVDs don't have as much capacity as commercial disks, so a single disk movie will often spill onto a second DVD.) Your computer makes a temporary copy on your hard drive, then you insert a blank disk and burn your DVD. The disk will then play in any compatible player. Unlike 321 Studios' earlier product, DVD Copy Plus, which copied DVDs to video CDs, DVD x Copy retains the quality of the original recording, though some special features, such as games, may be lost.

The company has made an effort to meet objections of copyright holders. When you play a copy made with its software, the first thing you see is a message stating that the disk is a copy made for personal use only. If you try to make a copy of a copy, it will fail. And the duplicate contains a hidden digital "watermark" that can trace any disk back to the specific copy of DVD x Copy used to create it. "We feel very strongly that what we are doing does not violate the DMCA," says 321 Studios President Robert Mooradian. Adds Boston intellectual property attorney Bruce D. Sunstein: "321 Studios is dealing with these issues in a responsible way."

The movie industry takes strong exception. After the Motion Picture Assn. of America last spring asked the FBI to investigate 321 Studios for possible criminal violation of DMCA, the Chesterfield (Mo.)-based company launched a preemptive strike. It asked a federal judge to declare that its software did not violate DMCA and that distribution of the programs was protected by first Amendment free-speech rights. The

movie studios named 321 Studios as defendants, the MPAA, and the Justice Dept., which intervened in the case as a defendant, worked hard to get the case dismissed.

On Dec. 19, the Justice Dept. abruptly changed its strategy by agreeing to let the case proceed and asking for an injunction barring the sale of both DVD Copy Plus and DVD x Copy. It is probably no coincidence that the change of heart came just two days after a federal court jury in San Jose, Calif., acquitted ElcomSoft, a Russian software company, on criminal charges of "trafficking" in software that



allowed unauthorized copying of electronic books. The Justice Dept. had argued that the ElcomSoft case was an appropriate vehicle for a constitutional review of DMCA.

It's important that the courts clarify just what the copyright law actually means, but that could take years. In the meantime, the entertainment computer, and consumer-electronics industries have to reach some agreement on the handling of digital movies and other content, covering both online distribution and physical media such as DVDs, that protects the rights of consumers and producers alike.

Unfortunately, this doesn't seem to be imminent. So legal trench warfare will continue to impede the progress of digital entertainment.

BusinessWeek online

FOR A COLLECTION OF PAST COLUMNS and online-only reviews of technology products, go to Technology & You at www.businessweek.com/technology/

BUSINESS TRIVIA QUESTION

Number 28

Which company handles
over 7 billion network connections
per day?

- ☐ (a) VeriSign
- ☐ (b) VeriSign
- ☐ (c) VeriSign
- ☐ (d) All of the above

Surprised? Perhaps you also didn't know that VeriSign processes over 3.7 billion dollars worth of secure transactions per quarter. Truth is, VeriSign has spent the last seven years building a secure infrastructure for the Internet. We'd like to do the same for your business. VeriSign can help you deploy a trusted infrastructure so you can conduct secure communications and transactions. So your business can start making a few billion transactions, too.

Learn all you need to know about infrastructure security – and how VeriSign's managed network and security solutions can help you – by downloading our new Executive Portfolio on Digital Trust. Visit www.verisign.com/securitysolutions



■ PAYMENT SERVICES ■ TELECOMMUNICATION SERVICES ■
■ NETWORK AND SECURITY SERVICES ■ WEB IDENTITY SERVICES ■

© 2004 VeriSign, Inc. All rights reserved. VeriSign, the VeriSign logo, and other trademarks, service marks, and logos are registered trademarks or trademarks of VeriSign, Inc. in the U.S. and other countries.

BY LAURA D'ANDREA TYSON

WHY EUROPE IS EVEN MORE SLUGGISH THAN THE U.S.



BAD REGS:
Hiring
and startup
barriers
depress
competition
—and
competition
is what spurs
the tech
investments
that boost
productivity

During 2002, Europe realized significant milestones on the road to economic and political integration. At the beginning of the year, the euro, the new European currency, replaced national currencies throughout the European Union. The conversion occurred on time, without economic disruption or political dissent. There are already signs that the introduction of a common currency is reducing national differences in prices and returns on financial assets.

Moreover, at the end of the year, leaders of the 15 EU members agreed to admit 10 new countries in May, 2004. This enlarged EU will constitute an economic market of 450 million people, with a gross domestic product of about \$9 trillion—comparable in size to the gross domestic product of the U.S. economy. In addition, the Europeans are drafting an ambitious new constitution to shift political and policymaking power from member governments to the European Parliament and other European institutions. Many Europeans believe that the agreements forged at their 2002 constitutional convention will be as momentous for Europe as the agreements forged at the Philadelphia Constitutional Convention in 1776 were for the U.S.

But if 2002 has been a successful year for European political and economic integration, it has been a difficult one for the European economy. Although the limping American economy has attracted the most media attention, Europe has fared even worse, growing only about half as fast as the U.S. Exports have accounted for most of the growth in the euro zone economy, with domestic demand stagnant and capital spending continuing to fall.

Economic conditions have been particularly weak in Germany, by far the largest European economy. Germany continues to suffer under significant structural constraints to competition in its product and labor markets—including rigid central-wage bargains and restrictive labor practices—that deter investment, innovation, and growth. Germany's labor costs in manufacturing are the highest in the world, and it's losing competitiveness relative to its European neighbors.

Ironically, Germany is a victim of the rules it championed for European economic integration. The focus of the European central bank on a low average inflation target for the EU has meant a high real interest rate for Germany. The Maastricht limits on deficit and debt/GDP ratios have curtailed Germany's ability to use fiscal policy to stimulate domestic demand. Germany has painted itself into a corner in which traditional mon-

etary, fiscal, and exchange-rate policies are no longer available to offset competitiveness or cyclical difficulties, making painful structural reform the only way out of its economic malaise.

The underlying weaknesses of the European economy are also apparent in its productivity record. After nearly two decades of roughly comparable performance, during the past six years the growth of real GDP per hour worked increased in the U.S., but it declined in France, Germany, and Britain. What explains this divergence in productivity growth? There is mounting evidence that differences in information-technology investment rates have played a role. A recent study shows a significant pickup in productivity growth rates in IT-using sectors in both manufacturing and services in the U.S. and a decline or stagnation in productivity growth rates in comparable sectors in Europe between the first and second half of the 1990s. The sector producing IT equipment in both Europe and the U.S. enjoyed a significant improvement in productivity growth over this period. But U.S. productivity growth rates in these sectors were higher, and overall U.S. productivity growth benefited from the fact that IT output accounted for a larger share of total output in the U.S. than in Europe.

Another study by the Board of Governors of the Federal Reserve finds a correlation between changes in IT investment and changes in productivity growth rates during the 1990s, suggesting that lower IT investment rates in Europe were partly responsible for its slower productivity growth. This study also finds that both regulatory constraints on employment practices and regulatory barriers on startups have discouraged investment in IT and dampened productivity growth in Europe.

Recent industry and company studies by McKinsey Global Institute conclude that competition is a key determinant of productivity growth and that competitive intensity in most product markets is weaker in Europe than in the U.S. When competitive intensity is high, companies are forced to seek greater efficiencies by investing in new technologies. Thus, a lower level of competitive intensity is one of the reasons behind the lower rates of IT investment in Europe compared with the U.S.

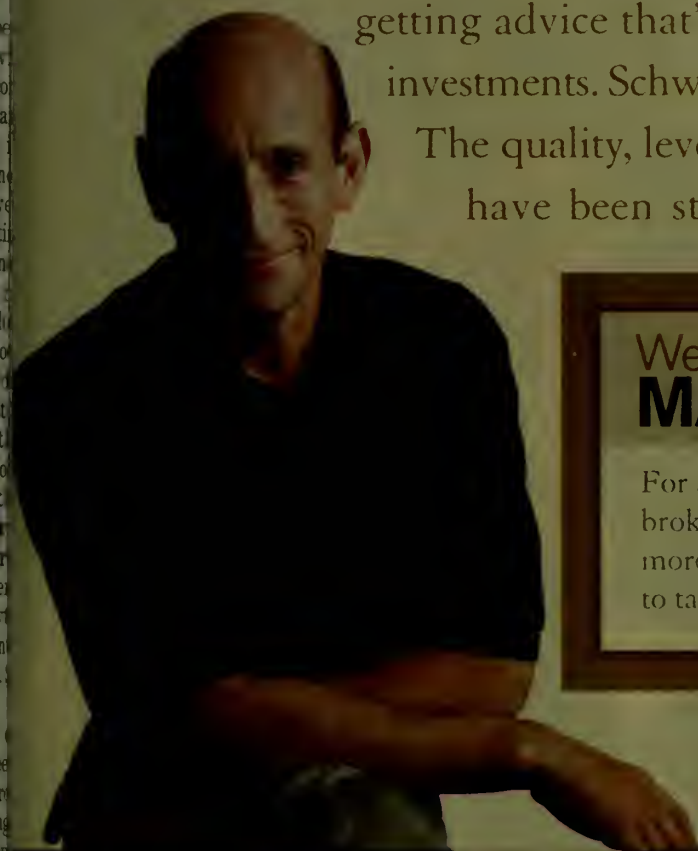
If Europe is to realize the potential of an enlarged integrated market, it must hasten labor and product market reforms to intensify competition. In this respect, 2002 has been another disappointing year for the European economy.

Laura D'Andrea Tyson is dean of London Business School.

I moved my money to Charles Schwab because:

THEIR RECOMMENDATIONS AREN'T SELF-SERVING.

Schwab consultants don't have the innate conflict that comes with working on commission, which is important when you're getting advice that's going to affect your savings and investments. Schwab isn't a traditional brokerage firm. The quality, level of professionalism and expertise have been stellar. And that's the bottom line.



We've made it easier to
MAKE YOUR MOVE.

For a limited time, we'll rebate your previous broker's exit fees when you move \$100,000 or more to Schwab. Call **1-866-804-4859** today to take advantage of this special offer.

Steve
moved his money to Charles Schwab in July 2002.

In the past year, individual investors moved more than \$30 billion in assets to us.

To learn how easy it is to move your money, call 1-866-804-4859.

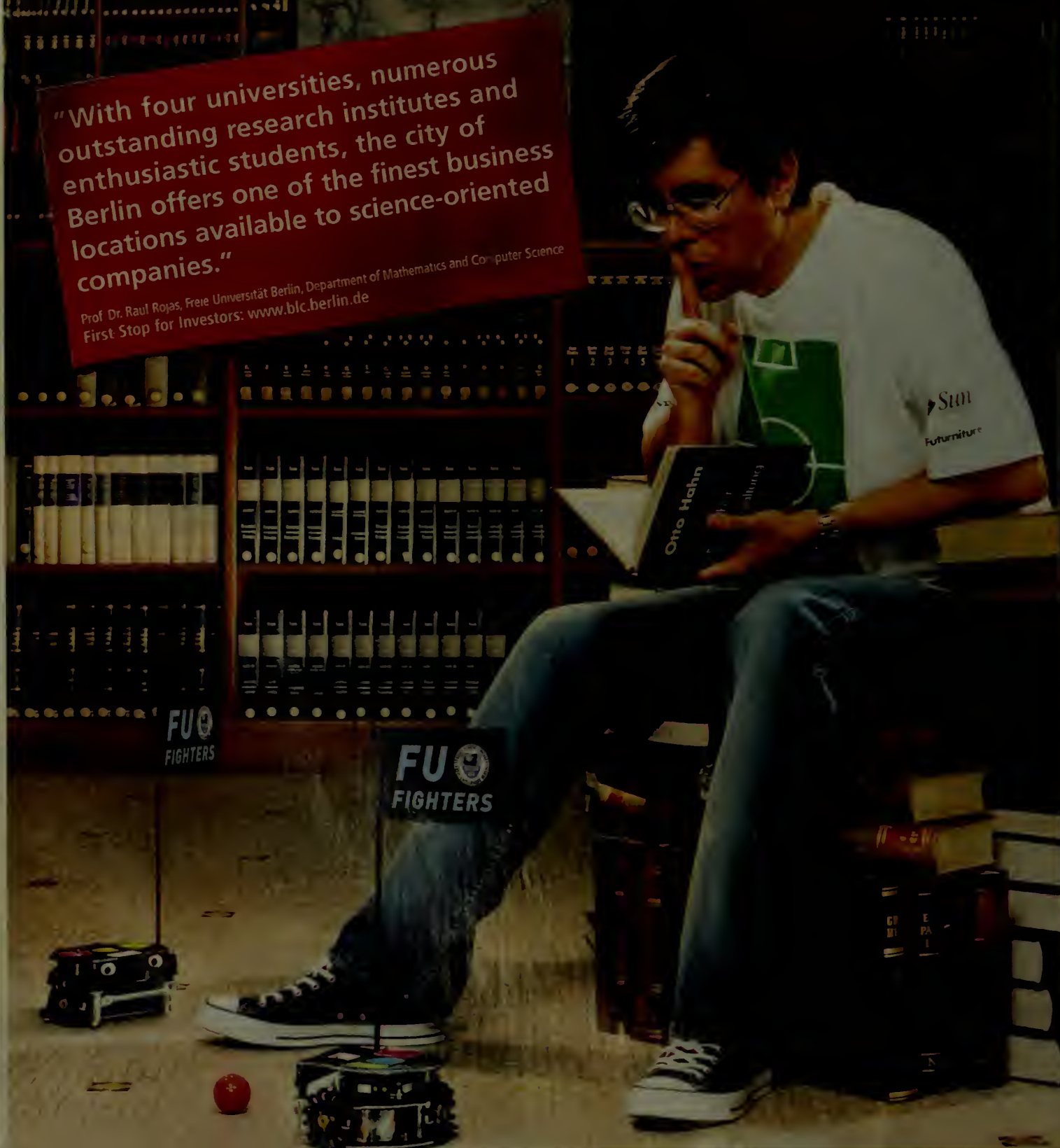
charles SCHWAB

Call	1-866-804-4859	Click	schwab.com	Visit	370 locations nationwide
------	----------------	-------	--	-------	--------------------------

Charles Schwab & Co., Inc. is proud to feature its brokerage clients in advertising, and their testimonials reflect their actual experiences with Schwab. Clients gave their testimonials before being compensated. Their comments are their own and may not be representative of other clients. Charles Schwab & Co., Inc. does not provide individualized tax advice. Where specific advice is necessary, Schwab recommends a consultation with a qualified tax advisor. You agree that you are solely responsible for determining what tax consequences, if any, may result from your participation in this offer. Net new assets as of the end of September 2002 consist of Schwab's Retail individual investor assets and individual investor assets custodied at Schwab and managed by independent Investment Advisors. ©2003 Charles Schwab & Co., Inc. All rights reserved. Member SIPC/NYSE. (1202-11039). ADS24559G.

"With four universities, numerous outstanding research institutes and enthusiastic students, the city of Berlin offers one of the finest business locations available to science-oriented companies."

Prof. Dr. Raul Rojas, Freie Universität Berlin, Department of Mathematics and Computer Science
First Stop for Investors: www.bic.berlin.de



JAMES C. COOPER & KATHLEEN MADIGAN

WHEN WILL CORPORATE AMERICA PRY OPEN ITS WALLET?

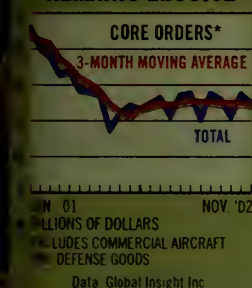
Crises in Iraq, North Korea, and Venezuela are keeping investment on hold

U.S. ECONOMY

A key theme resonating among business economists is the belief that 2003 will bring broader and more consistent economic growth—in short, a recovery that feels like one. But no matter how compelling the argument, the year begins with a nagging question: How do we get from here to there?

A true recovery depends on the willingness of businesses and investors to take risks. Without it, investors won't invest, financiers won't finance, and businesses won't make commitments to future growth in the form of new capital spending and new hires.

CAPITAL-GOODS UPTURN REMAINS ELUSIVE



The problem at the start of 2003 is that new uncertainties are reinforcing this risk-averse behavior. While similarities with Iraq loom ever more imminent, worries over an oil-price spike have grown because of the strike in Venezuela, which supplies more than 10% of U.S. crude. At yearend, oil was nearly \$33 per barrel, a two-year high. Fresh concerns over North Korea's nuclear weapons program are casting another shadow. Simply put, until these unknowns are cleared away, don't expect Corporate America to contribute much to the recovery. And without it chipping in, the economy cannot attain a higher, more fulfilling growth rate.

HOW WILL WE KNOW when this risk-related gridlock is easing? Several key indicators will point the way, including orders for capital equipment, the credit spread between corporate and government bond yields, stock prices, and bank lending.

Taking these in order: Capital-goods orders reflect business sentiment and the willingness of companies to spend on future growth. In November, core equipment orders, which exclude commercial aircraft and military hardware, fell 2.2% from October, and the trend is flat (chart). Falling prices for tech items mean the actual

volume is crawling higher, but businesses are mostly buying to replace old gear, not to expand capacity.

In addition, shipments of core capital goods weakened last quarter, suggesting that capital spending will add little, if anything, to fourth-quarter growth in real gross domestic product. In today's risky climate, that trend is unlikely to change in the first quarter.

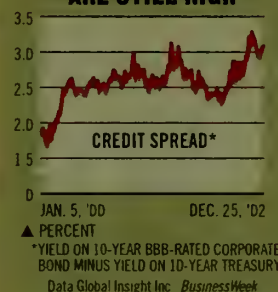
Another measure to watch is the difference between what corporations pay to borrow in the credit markets and the rate paid by the government, whose bonds are seen as riskless. In late December, the rate for BBB-rated, 10-year corporate bonds was 7%, vs. 4% on 10-year Treasuries, for a gaping credit spread of three percentage points. The gap has narrowed recently, but it remains unusually wide, a sign of investors' aversion to risk. The spread is wider than in 2000, after the NASDAQ's collapse, and as wide as it was after the September 11 attacks (chart).

The stock market also captures risk attitudes, which is why it often foreshadows economic growth. Despite its rally since October, the Standard & Poor's 500-stock index was off about 23% in 2002, the third consecutive year of losses. True, questions about the profits recovery still dog stock prices, but Iraq and other anxieties are also distorting the earnings equation.

Finally, keep an eye on bank lending, especially commercial and industrial loans. These loans, which are used primarily to finance inventories and materials, are a key indicator of businesses' desire to beef up inventories to support future sales. For nearly two years, C&I loans have been headed straight down, and in recent months, banks have become stricter in their lending to small businesses. However, note that surveys by the Federal Reserve show that banks have been reporting declining demand for C&I loans since 2000. Falling loans are not a sign of a credit crunch; they are evidence of little willingness to expand output.

BUT WHILE EXECUTIVES concentrate on avoiding risk, they seem to be giving short shrift to the strengthening of economic fundamentals, which typically drive future earnings. Profits in 2003 will benefit from current stimulative policy, strong productivity, and ris-

RISK PREMIUMS ARE STILL HIGH



Business Outlook

ing consumer spending. So far, those aspects of the brightening profits outlook have been largely ignored.

One encouraging report: The Conference Board's composite index of leading indicators jumped 0.7% in November. The broad gain erased all of the four losses incurred in the summer. Compared with its May level, the index is flat, far from the Board's rule-of-thumb that a 2% decline over six months means recession.

Another reason for optimism is the continued resilience of consumers. Of course, the downbeat reports about holiday shopping would seem to indicate that consumers are tired of spending. But those results may be deceiving, especially since the reports have come mainly from retailers. Many stores had to discount merchandise heavily to make sales. That strategy means many retailers will be reporting dismal profits for their fourth quarter, which ends in January, unless after-Christmas sales pick up sharply.

BUT FROM THE CONSUMER'S SIDE, price-cutting meant shoppers got much more merchandise without shelling out more bucks. Bear in mind that, for GDP purposes, consumer spending is adjusted for price changes and includes services. So while profit-hungry retailers were disappointed by the holiday season, real consumer spending probably grew at least modestly in December, after rising a strong 0.5% in November.

Grinchy Christmas stats aside, two other recent re-

ports show that consumers may remain committed to the recovery. Real aftertax income is on track to grow at a healthy annual rate of about 2.4% in the fourth quarter, despite the sluggish job market. With incomes rising, consumers have little reason to cut back.

Home sales are on a tear.

In November, purchases of new homes rose 5.7%, to a record annual rate of 1.07 million (chart). Existing homes sold at a 5.56-million pace. Thanks mainly to low mortgage rates, sales of both new and existing homes in 2002 will post their best year ever.

Home sales are a good indicator of future consumer spending for two reasons. First, they show how confident consumers are about the future, because taking a mortgage is a long-term commitment. Second, home owners have to furnish their new digs. So the wave of home sales in 2002 means more purchases of furniture, textiles, and other home-related goods in 2003.

Even so, the lesson of 2002 is that the economy needs more than stalwart households. But getting businesses and investors to shoulder more of the recovery burden will depend on how non-economic factors play out in coming months.



ISRAEL

THIS SLOWDOWN IS GOING TO HANG AROUND

Israel is facing a worsening economic crisis, and the troubles will complicate the fiscal plans of the winner of Israel's parliamentary elections on Jan. 28.

Israel's real gross domestic product contracted by nearly 1% in both 2001 and 2002, and growth in 2003 will be barely positive. Unemployment has risen from 9.6% at the end of 2001 to 10.4% in the fourth quarter of 2002. The rate is expected to hit 11% in 2003.

What's behind Israel's woes? First, domestic demand has been pummeled by the 2½-year *intifada* uprising by Palestinians. The violence has led to a plunge in tourism and construction, resulting in massive lay-

offs. The situation will likely deteriorate if the U.S. attacks Iraq.

Second, the global slowdown has caused tech exports, which account for nearly half of all industrial exports, to fall by 10% for

A SOLID RECOVERY REMAINS OUT OF REACH



two years in a row. Venture capital for startups has dried up, with investments down from a record \$3.2 billion in 2000 to \$1 billion in 2002. Even established tech outfits, which survived the initial slowdown, have had to cut thousands of jobs.

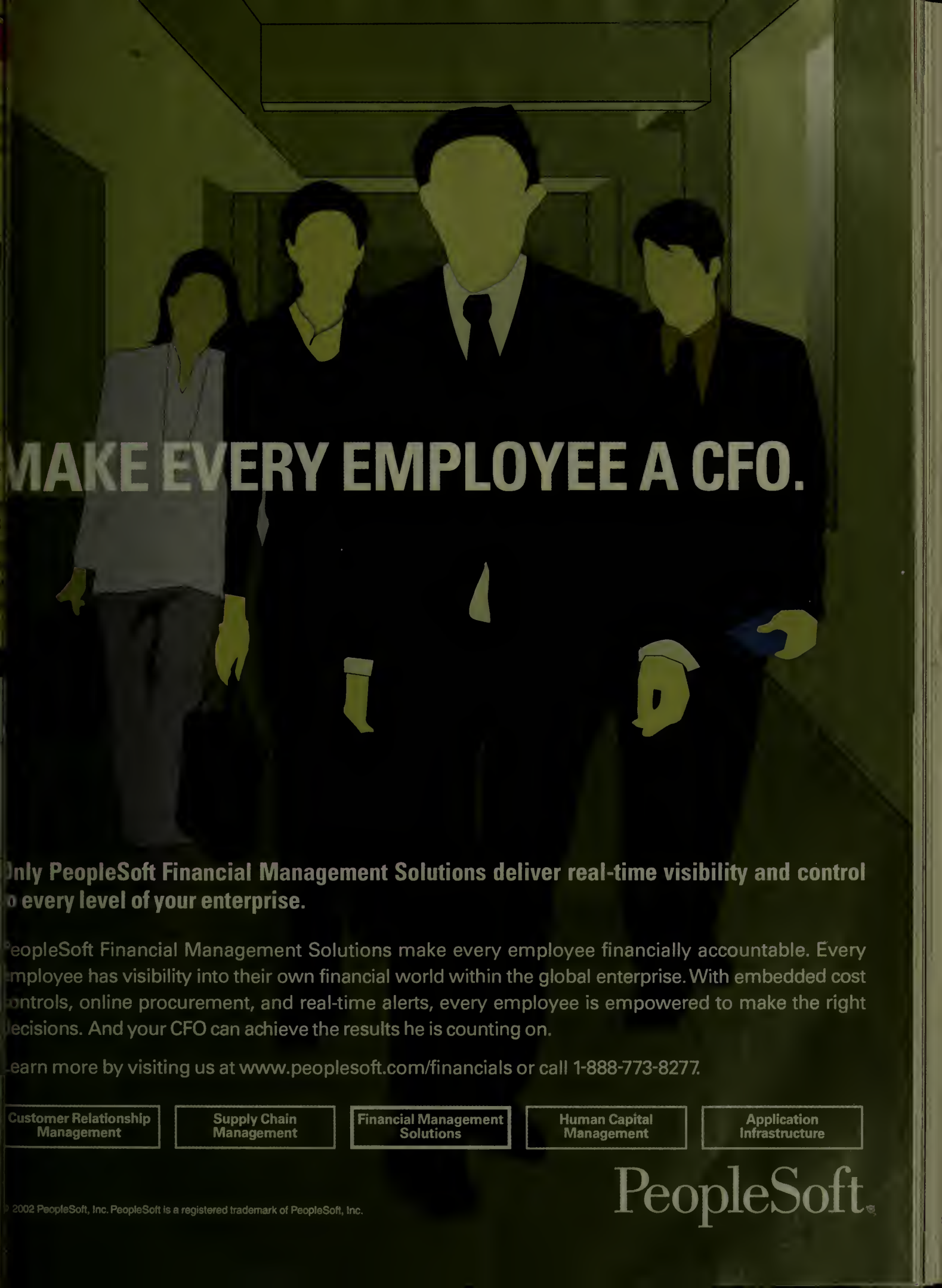
Lastly, the Bank of Israel hiked interest rates in the first half of 2002 to stem a pickup in inflation brought about by the shekel's devaluation. On Dec. 23, the bank lowered its key lending

rate, but only from 9.1% to 8.9%.

The economy and the *intifada* are the key issues of the election, which is expected to be won by the Likud Party, with Ariel Sharon remaining as Prime Minister. But the recession will make governing difficult, since it has reduced tax receipts, forcing the government to trim spending. The fiscal deficit probably equaled 4.5% of GDP in 2002, above the target of 3.9%. And Finance Minister Silvan Shalom has said the new government may have to cut the 2003 budget to meet an even lower 3% target.

The economy is not likely to improve soon. The only hopes right now rest with an end to the *intifada*, a quick resolution of the U.S.-Iraqi crisis, and an economic recovery abroad.

By Neal Sandler in Jerusalem

A black and white photograph of four business professionals (three men and one woman) walking towards the camera in a modern office hallway. They are dressed in business attire. The man in the center is slightly ahead of the others.

MAKE EVERY EMPLOYEE A CFO.

Only PeopleSoft Financial Management Solutions deliver real-time visibility and control to every level of your enterprise.

PeopleSoft Financial Management Solutions make every employee financially accountable. Every employee has visibility into their own financial world within the global enterprise. With embedded cost controls, online procurement, and real-time alerts, every employee is empowered to make the right decisions. And your CFO can achieve the results he is counting on.

Learn more by visiting us at www.peoplesoft.com/financials or call 1-888-773-8277.

Customer Relationship
Management

Supply Chain
Management

Financial Management
Solutions

Human Capital
Management

Application
Infrastructure

PeopleSoft®

SOGGY, AND STILL SLIDING

The dollar is weighed down by the trade deficit, low interest rates, and terror jitters



America, accustomed to being the world's economic powerhouse, isn't laughing about a feeble euro anymore. The European currency, which fell to 87¢ in March, is back above a buck; at yearend, it hit nearly \$1.05—a 17% loss in value for the dollar. Since late November alone, the greenback has slipped against its European rival and now is at a three-year low. "America certainly isn't have the attraction [for investors] it did in the second half of the 1990s," says Volker Dosch, head of U.S. equities at DWS Investment, a unit of Deutsche Bank and Germany's largest fund manager.

A one-time jolt due to global jitters over the fallout from a war with Iraq? Hardly. An array of other pressures ranging from the huge trade deficit and low U.S. interest rates to the narrowing advantage in economic growth are also weighing on the greenback. Many currency traders figure the slide against Europe's common currency could be just the start of a broad decline. "The dollar needs to correct lower," says Ashraf Laidi, chief currency analyst at MG Financial Group in New York. Many believe that the euro could rise to \$1.07 in coming months. Moreover, the dollar, which has lost 5% against the yen since early December, could sink below 115 Japanese yen from its current 118.

A modest further drop in the dollar probably would be good for the faltering U.S. economy on the whole. It clearly would benefit domestic manufacturers who export or who compete with imports; the combination of a high dollar and tough competition from countries with low-cost production has cost the manufacturing sector 2 million jobs since 2000. Lowering the prices of their goods in terms of euros, yen, and other foreign currencies, a weaker dollar would let producers regain market share and maybe even raise prices a bit. "We are gratified to see that the dollar has been easing down. We think it has further to go before it reaches what we think is a fair level," says Hank Cox, assistant vice-president of the National Association of Manufacturers.

But a decline in the dollar has domestic downsides as well. It hurts U.S.

consumers by raising the price of imports. It also could bump up interest rates if foreign investors demand higher returns because they risk currency losses when they switch back into their home currencies. That may be why the Bush Administration hasn't come out in favor of a lower dollar. "It's too risky because you just never know how your actions are going to be interpreted," says Thomas D. Gallagher, senior managing director in Washington for Wall Street consulting firm ISI Group.

For America's trading partners, a much weaker dollar would be a big negative that could smash fragile recoveries. America's tireless consumers have been the heroes of the world economy, and if higher prices lead them to buy fewer imports, growth abroad will be hit. Stronger foreign currencies would hold down overseas inflation rates—but inflation is the least of the problems in countries like Japan and China that are battling outright deflation.

the dollar's devaluation would make imported goods impossibly expensive.

Although a dollar disaster is unlikely, the forces arrayed against the greenback likely will keep it falling for at least a while. The immediate cause of weakness seems to be the market's fears that a conflict with Iraq could be costly, damage U.S. interests in the Middle East, and prompt more terror attacks against American targets. Each step toward war has jolted the dollar a bit lower against currencies that are more removed from the conflict.

Indeed, while the dollar typically has served as a refuge during international crisis, it has behaved more like a risky asset lately, according to an analysis by Boston's State Street Bank. In 2001, the dollar tended to do well whenever investors seemed risk-averse. But since last January the dollar has begun to move in sync with State Street's Risk Appetite Index. That means investors have been buying dollars when their appetite for risk grows and selling

when they get cold feet—making it the opposite of a safe-haven play. "The U.S. has become a prominent component of current geopolitical concerns," says Laidi.

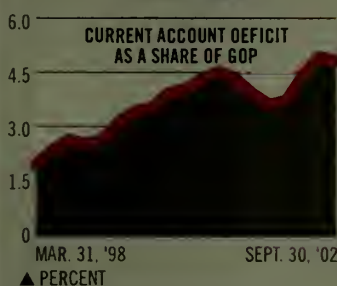
Beyond war and terrorism jitters, the dollar's recent slide comes against the backdrop of a growing deficit in the U.S. current account. America is importing way more than it exports, while the income it gets from foreign investments is less than what it pays out to foreigners on their investments in the U.S. Of course, the U.S. has run a current-account deficit for years. But the gap has been growing, and at an annualized rate of \$500 billion, the deficit is now close to 5% of gross domestic product. That's a level at which smaller, less creditworthy nations often see a run on their currencies.

Rather than exchanging goods for goods, the U.S. is paying much of its import bill

with paper—that is, claims on U.S. assets such as stocks and bonds. Dollar bulls say it will be easy to get foreigners to keep accepting American IOUs on the grounds that, for all its problems, it remains the world's best place to invest. But already there are signs that the U.S. is having a harder time attracting the kind of long-term, patient capital that makes for a stable currency,

IT'S NOT JUST IRAQ

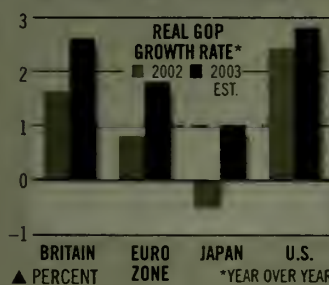
THE HUGE U.S. TRADE GAP...



...LOW INTEREST RATES...



...AND EXPECTED GROWTH IN FOREIGN ECONOMIES...



...ALL MAKE FOR A GROANING GREENBACK



Data: Commerce Dept., Bloomberg Financial Markets, Blue Chip Economic Indicators

It's unlikely, though possible, that the decline of the dollar will start to feed on itself and accelerate, much like a crash in the stock market. That would force the U.S. to jack up interest rates to keep foreign investors from bailing out entirely. The U.S. trade deficit would shrink, but in the worst possible way: A deep recession would slash consumers' buying power, while

notes Michael Metcalfe, a senior strategist in London for State Street Bank. The U.S. attracted \$130 billion of foreign direct investment in factories, real estate, and corporate acquisitions in 2001, but only \$24 billion worth through the first three quarters of 2002. Meanwhile, purchases of U.S. securities other than Treasuries fell from \$407 bil-

lion in 2001 to an annual rate of \$300 billion through the first three quarters of 2002. "It will be increasingly difficult for the U.S. to draw enough capital to compensate [for the trade deficit]," says Dosch, the German fund manager.

Another reason for foreigners' diffidence is that America's growth advantage is likely to shrink in 2003. While it is

growing faster than most industrial nations, economists expect its growth to increase by only 0.4 percentage point this year. Improvement elsewhere will be stronger: Britain and Europe expect to see 1 percentage-point gains, while Japan could rack up a 1.5 percentage-point gain in 2003, according to a survey by newsletter *Blue Chip Economic Indicators*.

DIVIDENDS: CAN A TAX CUT CRANK UP THE ECONOMY?

When President Bush unveils his new "jobs and growth" package in January, a key element will be tax relief for investors in dividend-paying stocks. Proponents believe easing the tax bite on investors' dividend income would spark the stock market—and put more jingle in consumers' pockets. That cash, they argue, could keep the expansion from flagging.

Advocates also think encouraging companies to put more of their profits into dividends could prevent a replay of the speculative excesses of the Go-Go Nineties. "Managers with excess cash let the money burn a hole in their pocket," says Henry J. Herrmann, chief investment officer of Overland Park (Kan.)-based Waddell & Reed Financial Inc. "Paying dividends would inject a little discipline into Corporate America."

Critics, however, aren't sold. For starters, they say the idea's stimulative effect is overstated, since the mostly well-to-do beneficiaries of the tax cut have a low propensity to spend any extra dollars the government passes on to them. Further, skeptics contend that pushing companies to pay larger dividends might actually reduce the resources available for new capital spending. Here's a look at the issues surrounding the controversial proposal:

What will the Administration propose?

**A
MARKET
BOOST**

Data. Standard & Poor's

Cutting taxes on corporate dividends could attract new investors to sectors that pay healthy yields

The White House is mulling several measures, one that lets investors exclude a percentage, probably 50% of any dividend income from taxes, and another that simply taxes dividends at the same 20% rate as capital gains. Some in the Administration prefer the first route, since it gives the President the option of raising the exclusion in later years until the tax on divi-

The White House prefers a plan to exclude 50% of dividend income from taxes over one that slices the tax rate

dends is completely phased out.

What are they hoping to achieve by trimming taxes on dividends?

The President is expected to assert that cutting the dividend tax will be a tonic for the stock market. At the same time, the Administration sees easing the tax as a first step toward tax reform. The White House wants to move toward a system that taxes consumption more than investment. Bush's advisers believe that reducing taxes on dividends would end the current distortion in the tax code that effectively encourages companies to load up on debt, since interest is deductible but dividend payments aren't. Cutting dividend

levies would also permit GOP lawmakers to give breaks to upper-tier taxpayers in a way that's less conspicuous than moving up another scheduled rate increase in the top marginal rate. Democrats are poised to attack the latter course as a giveaway to the rich.

What are the odds Congress approves the plan?

Pretty good, but it won't pass without a fight. Democrats will argue that an across-the-board exclusion overwhelmingly benefits the wealthy. For example, most of the benefit of a dividend exclusion would go to the top 1% of taxpayers. And there



budget issues as well: A 50% exclusion would cost more than \$100 billion over 10 years.

Does business support cutting taxes on dividends?

Yes and no. National Association of Manufacturers President Jerry J. Brown believes easing the tax on dividends would help "keep consumption strong and shore up [investor and business] confidence." But since the tax break is being structured to benefit individuals, rather than companies that pay dividends, many corporate reps would rather see alternative forms of stimulus that benefit them more. Some may even urge the White House to sea-

S&P 500 SECTOR	DIVIDEND YIELD*
REAL ESTATE	7.11%
TOBACCO	6.29
UNREGULATED POWER	5.48
ELECTRIC UTILITIES	4.68
GAS UTILITIES	4.10

*As of Nov. 30, 2002

S&P 500 SECTOR	DIVIDEND
WHOLESALE	3.
AUTOMOBILES	3.
TELECOMMUNICATIONS SERVICES	3.
BANKS	3.
PAPER & FOREST PRODUCTS	3.

Nor is the dollar getting any help from U.S. interest rates. To stimulate the economy, the Federal Reserve has lowered the federal funds rate to a 42-year low of 1.25% over the past two years while it has been pumping up the money supply. After subtracting inflation, the real return on two-year U.S. Treasury notes is just 1.7%. That's below the returns available on the two-year notes of Britain and the euro zone. Even Japan, with its famously low in-

terest rates, does better. Although the nominal yield on Japan's notes is just 0.9%, consumer prices in Japan are falling 0.9% a year, so the effective return on the notes for yen-based investors is 1.8%.

Of course, the bears could be wrong. The dollar has weakened before only to spring back. While its decline against the euro is pronounced, the greenback has held up well against most other currencies. In the long run, though, it's al-

most inevitable that the dollar will lose altitude—there's a limit to how long the rest of the world will keep extending credit to the American consumer. The healthiest outcome would be for the dollar to sink gradually in response to accelerating growth abroad. A planet as big as this one needs more than a single engine of growth.

By Peter Coy in New York, with Jack Ewing in Frankfurt, and Laura Cohn in Washington

of the dividend plan in favor of giving companies with tax breaks for purchases of capital equipment.

not just eliminate the taxes coming out of dividends, rather than giving a break to individuals?

Giving companies a tax deduction on the profits they pay out in dividends would provide faster, more direct aid to companies, since it would im-

political problems as well, since companies don't vote, investors do. And in light of the recent spate of corporate scandals, the Bushies fear too many business tax breaks would be seen as handouts to Corporate America.

Would easing the dividend tax really boost the economy?

Not in the near term. Investors won't be in a position to take advantage of the new break until they start preparing their '03 tax returns in April, 2004. The White House surely hopes

That assumes the change would motivate investors to suddenly buy dividend-paying stocks. Will it?

Early signs are encouraging. Sam Stovall, chief investment officer at Standard & Poor's (like *BusinessWeek*, a subsidiary of The McGraw-Hill Companies), believes there has already been a shift toward safer dividend-paying shares. He notes that

that the economy will be back on track by then. And since roughly half of all dividends are paid to investment accounts that aren't taxed, such as 401(k) retirement funds and pension funds, even then many shareholders wouldn't reap much benefit.

What about the impact on the stock market?

As a Columbia University economist in the 1990s, White House economic adviser R. Glenn Hubbard estimated that a full repeal could lift stock valuations by as much as 20%. Few market mavens believe the effect would be anywhere near that now. But Lynn Reaser, chief economist for Banc of America Capital Management, predicts that repeal of the individual tax on dividends could bring a 6%-to-9% rise in the market, since it would raise aftertax yields. And Steven Galbraith, chief investment strategist for Morgan Stanley, believes the move would boost stocks that already have the highest returns, including utilities and the regional Bell phone companies.

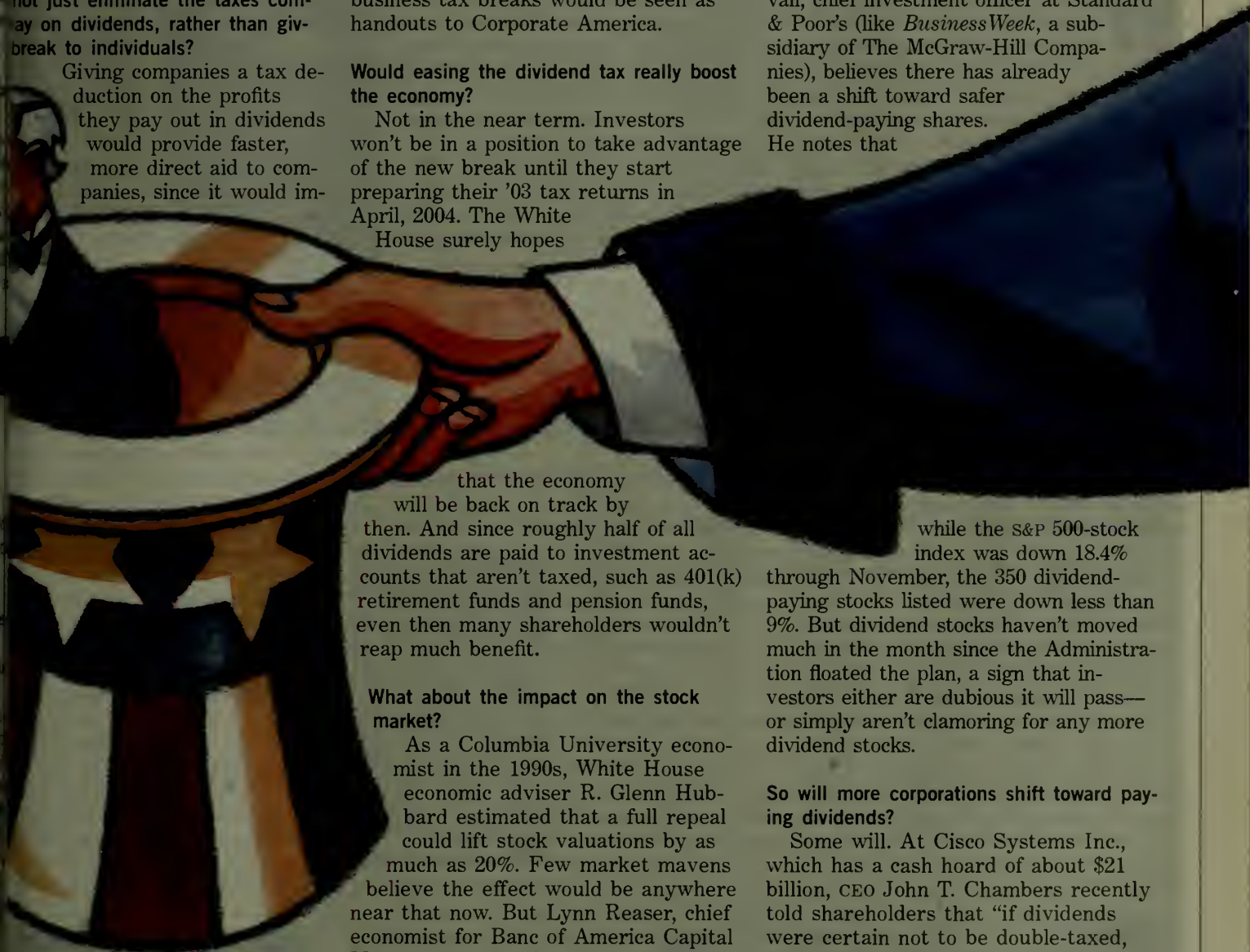
while the S&P 500-stock index was down 18.4% through November, the 350 dividend-paying stocks listed were down less than 9%. But dividend stocks haven't moved much in the month since the Administration floated the plan, a sign that investors either are dubious it will pass—or simply aren't clamoring for any more dividend stocks.

So will more corporations shift toward paying dividends?

Some will. At Cisco Systems Inc., which has a cash hoard of about \$21 billion, CEO John T. Chambers recently told shareholders that "if dividends were certain not to be double-taxed, we would look at [declaring a dividend]." If others followed, and investors over time warmed to stocks with a hefty yield, companies may view the once-dowdy dividend as the best way to bring some sizzle back to their tired stocks.

By Dean Foust in Atlanta, with Howard Gleckman in Washington and Jim Kerstetter in San Mateo, Calif.

ly boost cash flow. That could lead CEOs to make new capital investments right away. But investors now rely on only about 50% of dividends. Domestic and foreign investors avoid all reliance on investment income. Thus, a tax deduction for dividends would cut half of all payouts completely untaxed. And such an arrangement raises



THE ECONOMY

THE BANKRUPTCY RUN ISN'T SLOWING

High debt and low cash mean more candidates for 2003

What a year. Only three weeks into 2002, Kmart collapsed. Global Crossing came next, then Adelphia Communications, WorldCom, UAL, and Consec. By yearend, half of the 10 largest corporate failures in history, as measured by assets, had occurred. Indeed, the year's bankruptcies were so colossal that Kmart's Chapter 11 declaration—No. 6 on the all-time list when it was filed—no longer even merits a Top 10 ranking.

Don't expect 2003 to be any better. With the economy still waiting for a lift, analysts at credit-rating outfits predict that roughly one in every 13 companies with noninvestment-grade debt, or 8%, will default and declare bankruptcy in the next 12 months. While that's about the same ratio as in 2002, it's double the average over the past 20 years. Among junk-rated companies in the troubled telecom and cable-television sectors, analysts forecast that the failure rate could hit one in five, while the hard-hit textiles and software sectors could see one in six junk-rated companies go bust. "We've never seen the outlook for defaults higher than today," says Tim Kasta, managing director of Moody's Investors Service's KMV unit, which predicts default risks for banks.

So how do credit analysts and bottom fishers spot possible bankruptcies on the horizon? For starters, many companies have signaled to the markets on their own that they are entering the danger zone in their Securities & Exchange Commission filings. In addition, analysts look

for trouble by sifting through the huge piles of high-yield debt companies took on in the anything-goes 1990s. Junk bonds outstanding rose every year since 1994, leaping 25% in the past three years alone, to a current \$810 billion. Other warning signs: debt payments coming due and high rates of burning through cash.

Now, many companies are discovering they can't cut expenses fast enough to pay the bills. Financier Wilbur L. Ross Jr., who has made a fortune bargaining in bankruptcy court, estimates that fully 25% of all junk bonds trade at 10 percentage points above the 10-year Treasury note, his definition of "distressed debt."

Entire sectors, such as textiles and unregulated electricity, are struggling to avoid bankruptcy. And it's not just a couple of sectors, either. Companies currently caught in severe cash squeezes range from American Airlines Inc. to Aurora Foods Inc., whose well-known brands include Duncan Hines and Lender's Bagels. The likes of Metris Cos., the nation's 10th-largest credit-card issuer, and Greyhound Lines Inc. also face rough going.

The year's first headline bankruptcy could happen almost any day now, with credit analysts pegging NRG Energy Inc. as perhaps the most likely candidate. The Minneapolis-based wholesale electric-power generator, which already is in

PAINFUL SIGN

After 2002, Kmart's bankruptcy doesn't even make the Top 10



default on its debt, is fighting an involuntary Chapter 11 petition brought by former executives. FAO Inc. is also on the brink. The children's-toy retailer, which owns the Zany Brainy Inc. and FAO Schwarz Inc. chains, has until Jan. 10 to reach new terms with its bankers before it runs out of cash. NRG executives acknowledge they're in a bind and say they are trying to negotiate a deal with creditors. FAO declined to comment.

Others may not be far behind. Two other big power companies—Mira Corp. and Allegheny Energy Inc.—issued bankruptcy warnings in late December. And two more may be done by the collapse of their energy-trading operations—Dynergy Inc. and Aquila Inc.—have alerted investors that the

TROUBLE AHEAD?

Credit and industry analysts have identified many companies as possible bankruptcy candidates in 2003. The key indicators: large amounts of junk-rated debt trading at steep premiums

POWER COMPANIES

With huge debt payments looming, such wholesale producers as Aquila, Allegheny, Dynergy, Mirant, and NRG have been dragged down by overexpansion and slack demand

TELECOM

Time and cash may run out for Lucent Technologies and

Nortel Networks, which are losing billions of dollars a year as big customers cut their capital spending

AIRLINES

The drop in air travel after the September 11 attacks has AMR, American Airlines' parent, burning through \$2 billion in cash a year to pay its bills

FOODMAKERS

Aurora Foods, maker of Duncan Hines mixes and Lender's Bagels, is down to just \$30 million in cash after an acquisition spree

FINANCIAL SERVICES

Cash-strapped consumers who skip payments or default spell trouble for Metris, the nation's 10th-largest credit-card issuer

might not be able to last past the second quarter, when huge debt payments come due.

Vulture funds and short sellers, meanwhile, are circling over several other giants, including American Airlines parent AMR and telecom-equipment makers Lucent Technologies and Nortel Networks. Management at each insists bankruptcy isn't in the cards. They say they'll survive thanks to restructurings, the cash they've salted away—and an eventual upturn in demand. “We’re doing everything we can to avoid bankruptcy,” AMR Chairman and Chief Executive Donald J. Carty assured employees on Dec. 13.

Yet each of these companies is burning through at least \$2 billion a year and has no hope of a turning a profit until 2004. Credit analysts say that means each still could fail if the economy stalls. Carty conceded as much in his message to employees: “No company can keep borrowing money to operate, any more than you can buy your groceries with borrowed money every day.”

Other at-risk companies are also trying to salvage themselves.

Aurora Foods is auctioning off its frozen-food brands. And Metris, after firing its chairman and CEO on Dec. 15, is trying to sell \$150 million worth of secured debt to individual investors.

Execs at both Metris and Aurora are filing for bankruptcy would be a last resort and neither expects to do so. Meantime, the power companies are also trying to sell assets. Says Enegy CEO and President Bruce A. Williamson: “We’re not in bankruptcy mode—we’re in restructuring mode.” Analysts caution that these 11th-hour actions may only postpone the day of reckoning. To get relief from bondholders, for instance, money-losing Qwest Communications International Inc. agreed to pay 13.5%

on its new debt, vs. the average 7.5% it did on its old bonds. Even if the economy continues to muddle through, Mariarosa Verde, managing director of S&P Ratings’ credit-market research, doesn’t expect bankruptcies to settle back to more normal levels until 2004. And if there’s another downturn? “All bets are off,” she says. In the meantime, scavengers such as Ross will have no problem finding plenty of bargain-segment assets.

By Michael Arndt in Chicago, with bureau reports

A THORNY QUESTION FOR DONALDSON

EasyLink’s stock was hyped while he was on the board

The brokerage firm that William H. Donaldson co-founded, Donaldson, Lufkin & Jenrette, was proud to call

itself “The House That Research Built.” But research may prove to be a thorny issue for Donaldson, who



EASYLINK
SERVICES

faces Senate confirmation hearings on whether he will succeed Harvey L. Pitt as chairman of the Securities & Exchange Commission. *BusinessWeek* has learned that an Internet company in which Donaldson was a director, EasyLink Services Corp., paid \$25,000 to a California firm to produce ostensibly independent research that briefly boosted

the hiring of J.M. Dutton & Associates to produce the reports. Through a staffer, he referred questions to Gerald Gorman, EasyLink’s chairman and a former DLJ investment banker, who said he didn’t recall discussing Dutton with Donaldson, or asking for board approval. He declined to say if the board ever discussed the general issue, saying, “Those are not matters we discuss publicly.”

Paid research, though legal, is generally viewed by regulators and market pros as a stock promotion gimmick rather than genuine research. Joseph P. Borg, the Alabama Securities Commissioner and an authority on microcap issues, says:

“When we look at these things, more than half are usually, you know, crap.”

Louis M. Thompson Jr., president of the National Investor Relations Institute, says the group banned paid research entirely until January, 2002, because of the potential for abuse. NIRI then enacted stringent, though voluntary, guidelines requiring that reports not resemble ordinary analyst reports, and mandating explicit payment disclosure.

Market reaction to the first Internet-distributed Dutton report, on Sept. 3, was



J. M. DUTTON & ASSOCIATES

Independent Investment Research
San Francisco • Los Angeles • New York • London

RESEARCH REPORT

The Internet outfit paid \$25,000 for a report that called it a “speculative buy.” Donaldson, now an SEC nominee, declines to comment



DONALDSON

the high-tech company’s share price.

And that poses a troubling question: Did Donaldson endorse the controversial practice, common among microcap companies, of paying for research? Donaldson’s close ties to Wall

Street and his controversial tenure as chairman of Aetna Inc. have made him a subject of widespread criticism by investor advocates. Any connection between Donaldson and the decision by Edison (N.J.)-based EasyLink to commission the research—which mimics Street research so closely that it appears to violate industry guidelines—could fuel criticism that he is not sympathetic to investor concerns.

Donaldson, who left the EasyLink board on Nov. 12, declined comment on whether he or the board had approved

the report. Share prices jumped 37%. Contrary to NIRI guidelines, the report gave EasyLink a “speculative buy rating.” It noted Donaldson’s presence on the “strong board of directors” and said the company “appears to be undervalued.” The report says “the cost of enrollment in the Dutton & Associates one-year continuing research program is US \$25,000”—but does not explicitly say that EasyLink paid Dutton. The firm’s president, John M. Dutton, confirmed the payment and said there was no understanding that Dutton would provide favorable reports.

The SEC has set no rules specifically governing paid research and has announced no plans to look at the issue. But that could change if more distressed companies decide to resort to this controversial form of stock promotion. Gorman is right. What happened at EasyLink board meetings is a private issue. But the Senate may not take “no comment” for an answer.

By Gary Weiss in New York

COMMENTARY

By John Carey

WHY INOCULATING BIG PHARMA FROM VACCINE LAWSUITS MAKES SENSE

It seemed like Washington at its backroom-dealing worst. With no debate, congressional conferees in November quietly inserted language into the Homeland Security Act that prevents parents from suing Eli Lilly & Co. and other makers of the mercury-containing preservative, thimerosal—an ingredient once used in infant vaccines that some believe is responsible for mushrooming rates of autism in young children. Parents and some consumer advocates have been complaining about the provisions ever since. “The legislation gives Lilly a get-out-of-court-free card,” says Janell M. Duncan, legislative counsel at Consumers Union.

Washington is abuzz with allegations that the drug industry’s political friends were behind it. The provisions were authored by newly named Senate majority leader Bill Frist (R-Tenn.) and stuck in the bill by Representative Dick Armey (R-Tex.). “It appears this provision was added at the last minute as a payback to a powerful political supporter,” charges Senator Debbie Stabenow (D-Mich.), who vows to strip the offending language from the bill after Congress reconvenes in 2003.

The process was indeed dubious. Rather than trying to avoid the politically charged issue, Congress should have openly debated the pros and cons. But sometimes even shady deal-making can yield decent policy. Far from being a disaster, the provision makes sense, especially as part of a package of vaccine policy proposals that Congress is expected to take up.

To understand why, jump back to a mid-1980s crisis. Although vaccines



OUCH: Suits in the '80s drove out many vaccine companies

had revolutionized public health, their side effects were prompting suits against vaccine makers. As a result, many companies left the low-profit business. That raised the specter of shortages and a resurgence of such diseases as polio. So in 1986, Congress limited companies’ liability by creating a national injury compensation program—in essence, a vaccine court—to evaluate claims and hand out damages. And if people don’t like the awards they get, they’re free to sue in regular court.

That law, however, contains a loophole that plaintiff’s lawyers representing parents with autistic children have since tried to exploit. Because the vaccine court’s compensation program has a three-year statute of limitations, lawyers seeking damages for children who got the disease earlier than 1999 have been going after the ingredient makers. The new bill would give these companies the same legal protections as vaccine makers. That would eliminate the discrepancy in how the cases are treated, ending much fruitless litigation; courts have quashed some

attempts to sue the likes of Lilly.

The new law, moreover, would keep claims against ingredient producers in the vaccine compensation program, which was set up to handle these difficult issues. Even many trial lawyers who back changes to vaccine policy—including an extension of the statute of limitations—would

rather deal with the vaccine court. For one thing, the awards can reach into the millions of dollars. In theory, many cases also have a better chance, since parents and their lawyers need not prove liability, says plaintiffs’ lawyer Clifford J. Shoemaker. That’s crucial in the case of alleged injury from thimerosal, because there’s no proof it causes autism. To the contrary, autism rates have increased since 2000, when vaccine makers began reducing the amount of mercury used.

Unless Congress closes the loophole that threatens ingredient makers, a repeat of the 1980s liability crisis that drove companies out of the business could occur. “If we vote to strike these provisions,” argues Senator Frist, “we’re putting at risk our manufacturing base.”

Yet Congress shouldn’t stop there. It also needs to improve the compensation program. Lengthening the statute of limitations is one fix, particularly as more time is needed for research on whether mercury plays any role in autism. With studies under way, “it makes sense to wait for the results,” says plaintiff’s attorney Michael L. Williams, chair of the Mercury Vaccine Alliance.

Every child stricken with autism is a cause for sorrow. It’s only human to assign blame and seek damages. But with a program in place to handle these questions, allowing endless rounds of extra litigation makes no sense. Even when it goes about things the wrong way, Congress sometimes gets it right.

Carey writes about science policy from Washington.

RIGHT MOVE

Despite its stealthy passage, a new law barring litigation against vaccine component makers would safeguard supply

THE GREAT SUV SHOWDOWN

The Big Three's lead will be under attack at the Detroit auto show

For Detroit carmakers, the annual hometown auto show is traditionally the chance to brighten the dark days of early January with the dazzle of missing new vehicles. But for the Big Three, this year's North American International Auto Show will serve as a chilling reminder of foreign makers' continued

fault on the lucrative truck market, where, long ago, domestic manufacturers reigned supreme. Indeed, under klieg lights

Detroit's Cobo Hall, from January, auto makers from around the globe will yank the covers from an unprecedented array of pickup trucks and sport utilities—from luxury hybrid models to stylish, car-based, SUV-like “crossover vehicles.” The increasingly crowded truck market almost guarantees that Detroit will lose yet more ground to its Japanese, Korean, and German rivals. Already, the Big Three's share of the U.S. light-truck segment has dropped eight percentage points in the last five years, to 76.4%. That's devastating for domestic auto makers, who derive most of

carmakers lacked the knack for making the burly trucks Americans admire. But as SUVs and pickups became trendy, baby boomers demanded more stylish exteriors and luxurious cabs, creating

NISSAN MURANO SUV

an opening that BMW, Mercedes, and Toyota quickly drove through. Meanwhile, Toyota Motor Corp. and Honda Motor Co., lacking rugged big pickup frames from which to spawn SUVs, instead put brawny-looking SUV bodies on nimble car chassis. The new crossover category was born.

Now, Japan is digging deep



BATTLE OF THE BUZZ

SUVs, pickups, and crossover vehicles are expected to create a stir this year

FORD F-150 The No. 2 auto maker hopes a more refined version of its top-selling full-size pickup will help bolster its shrinking market share.

CADILLAC SRX AND CHEVROLET EQUINOX These stylish, car-based sport-utes are GM's most promising entries yet in the hot crossover segment.

NISSAN MURANO SUV The Japanese carmaker will introduce this midsize SUV, along with its first full-size pickup. Both will be built at its Mississippi plant.

VOLKSWAGEN TOUAREG The company's first sport-utility was developed with Porsche's Cayenne SUV. Both brands are hoping to woo horsepower-hungry Americans.

LEXUS RXH Toyota will once again steal Detroit's environmental thunder by introducing the first gas-electric-powered SUV, a hybrid version of Lexus' popular RX 330.

Data: Company reports



CADILLAC SRX their vehicle profits from trucks. Wesley R. Brown of Los Angeles auto consultant Nextrend Inc. predicts another fourth market share drop in 2003, calling “a rough year for Detroit.”

A decade ago, the very notion of a foreign truck invasion seemed laughable. With little appetite at home for bulky vehicles, Japanese and European

into the traditional market for pickups that can pull stumps or tow a trailer. Nissan Motor Co. will unveil its first big truck—still shrouded in mystery—on Jan. 7. It may join Toyota's Tundra as a credible threat to Motown's pickups.

Japan also will introduce models in the bread-and-butter minivan and midsize SUV segments that are expected to make inroads on Detroit's turf. Toyota's revamped Sienna minivan has been en-

larged to compete head-on with industry leaders such as DaimlerChrysler's Dodge Grand Caravan and Honda's Odyssey. And Nissan's sleek new Murano is winning rave reviews.

The elite SUV segment is heating up, too, as even sports car specialist Porsche gets into the act. Hoping to cash in on Americans' love of horsepower, Porsche will roll out the high-performance, 340-hp Cayenne SUV. It's a low-volume niche vehicle, sure. But a niche with some of the richest pricing in the auto market: The high-end Cayenne turbo starts at \$89,000.

Foreign auto makers are gaining in the environmental stakes, too. Toyota will unveil the first gas-electric SUV in Detroit, a hybrid version of its Lexus RX 330, aimed at well-heeled environmentalists. Ford Motor Co.'s hybrid Escape arrives late in the year, while General Motors Corp. will announce plans at the auto show to roll out hybrid versions of most of its popular large trucks, starting in 2004.

As foreign brands steal market share, they're putting pressure on prices and profits. As it is, Detroit has been forced to slap rich incentives on many truck models for the first time. That has pushed average pretax profit per vehicle to roughly \$2,500 from some \$7,000 five years ago, and the squeeze is likely to continue, says Burnham Securities Inc. analyst David Healy.

FORD F-150



Still, the Big Three aren't conceding market share without a fight. Ford will unveil the latest version of its best-selling F-150 fullsize pickup in Detroit. The F-150, with a beefed up engine and refined interior, is considered a strong contender. And GM has new trucks

almost across the board: a Cadillac luxury SUV, the SRX; the roomy Chevrolet Equinox, with a carlike ride; and a pair of midsize pickups, the Chevy Colorado and GMC Canyon. “Whoever has the best product wins,” says GM North America President Gary Cowger. “We have a lot of trucks coming.” Alas for him, so do his rivals.

By Kathleen Kerwin, with David Welch, in Detroit

MEDIA

AS SATELLITE DISHES IT OUT, CABLE TV FIGHTS BACK

Facing defections, cable plays with pricing, pushes broadband

Whenver cable rates go up, as they almost always do this time of year, TV watchers everywhere go slightly bonkers. This year will be no different: Nationwide, cable prices will rise by an average of 5.4% starting in January, figures Kagan Consulting Services analyst Robin Flynn.

Despite the hike—twice the inflation year—cable is in a serious bind. The industry needs price hikes to service more than \$60 billion in debt and to help pay skyrocketing costs of sports and other programs. Yet even at current rates, cable prices are often higher than those of its small yet mightily growing foe, satellite. With newspaper and TV ads across the country shouting out satellite's great deals, the upstart technology siphoned off as many as 1 million cable customers last year. As a result, the number of households subscribing to cable service fell in 2002—the first drop since the industry began tracking data in 1980. That compares to a 13% increase in satellite subscriptions.

The combined squeeze of a nimbler, lower-cost rival and cable's own financial pressures has forced industry players into delicate balancing acts. They're fighting the encroaching dish by freezing rates in vulnerable markets, while raising rates sharply in other markets. And they're pushing higher-margin services—especially high-speed Internet access—that satellite can't yet offer. "We are in a game of capture the flag," says Charter Communications President Carl Vogel, whose company lost more than 4% of its 6.9 million customers last year, many of them to satellite.

The two-pronged approach of freezing cable rates and pushing high-margin data services is already paying off for some operators. Cox Communications Inc., the coun-

try's fourth-largest cable provider, froze rates last year in two of its larger markets, Phoenix and Northern Virginia, and this year will put a lid on rates in three or four other markets. Yet to generate more revenue from existing cus-

tomers, Cox bundles its services, offering discounts of \$10 a month for telephone or data service to customers who also subscribe to its TV service. That's limited satellite to only about 10% of the households in Cox's territories rather than the 18% for the rest of the cable industry. Says Joseph J. Rooney, Cox's marketing senior vice-president: "It's about not wanting to push people off the fence" and "toward satellite."

In markets where cable is entrenched, however, hikes are steep, such as Comcast's 7.8% rise in some New England cities and Cox's 7% increase in Baton Rouge, La. Others

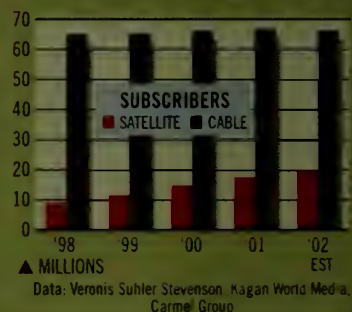
are trying a mixed approach: hiking ble-TV rates but giving deals on high-end services. AOL Time Warner Inc.'s ble unit raised its prices by 9% in New York City and 7% in Los Angeles its "standard" lineup of 70 or so channels. But it has frozen its rates on its digital offerings with several hundred channels including some free video-on-demand from CNN, NBC, and others.

Still, many consumers figure dish is a better deal. Charter officials admit they can't yet compete with EchoStar Communications Corp.'s Dish network, which offers 50 channels plus local stations for \$28.98 a month. Charter's best package has 82 channels for \$45.85, the company says, although it says it is testing a slimmed-down package with fewer channels for about \$30 a month.

Cable may soon get some relief. With the planned merger of EchoStar and Hughes Electronics Corp.'s D



SATELLITE PICKS UP STEAM, CABLE STALLS



rectV services are contemplating rate hikes of their own to pay for increased program costs. But they're not foolish enough to give up their advantage entirely. "Whatever our price, we're always going to be less than cable," pledges I rectV Chairman Eddie Hartenstein.

There's no doubt that war between satellite and cable is only going to heat up. When Comcast's AT&T Broadband unit and AOL Time Warner announced rate hikes for their San Francisco customers in early December, EchoStar blitzed the city with two weeks of radio and newspaper ads offering its lower-priced service. EchoStar says that prompted a flood of calls from potential new customers.

For all the couch potatoes who have endured big annual cable rate hikes over the years, the ongoing battle between cable and satellite is going to be one satisfying show to watch.

By Ronald Grover in Los Angeles with Tom Lowry in New York

ANOTHER CABLEVISION RATE HIKE IN 2003.

HAPPY NEW YEAR.

Start the New Year off right. Get DIRECTV.

Get a 2-Room DIRECTV System including Standard Installation in 72 HOURS for **FREE**

Over 130 channels for just \$36.99 a month with the INITIAL CHARGE. PLUS with Local Channels Package



What happens if you
don't talk to your doctor
about VIAGRA?

Nothing.



When it comes to erection difficulties, such as
erectile dysfunction (ED), too many men give their
doctors the silent treatment.

But ED is a health condition. It can be linked to
things like high blood pressure, high cholesterol, and
stress, so doctors are trained to discuss it. In fact,
doctors have already prescribed VIAGRA to **more than
9 million men**. Because doctors know that VIAGRA
works for most men, no matter what's causing their ED.

So instead of making excuses, make an
appointment with your doctor. For more information,
call 1-888-4VIAGRA or visit www.viagra.com.

VIAGRA[®]
(sildenafil citrate) tablets

Join the millions. Ask your doctor if a free sample is right for you.

VIAGRA is indicated for the treatment of erectile dysfunction. Remember that no medicine is for everyone. If you
e nitrate drugs, often used to control chest pain (also known as angina), don't take VIAGRA. This combination
uld cause your blood pressure to drop to an unsafe or life-threatening level.

Discuss your general health status with your doctor to ensure that you are healthy enough to engage in sexual
tivity. If you experience chest pain, nausea, or any other discomforts during sex or an erection that lasts longer
an 4 hours, seek immediate medical help. The most common side effects of VIAGRA are headache, facial flushing,
d upset stomach. Less commonly bluish vision, blurred vision, or sensitivity to light may briefly occur.

Please see patient summary of information for VIAGRA (25-mg, 50-mg, 100-mg) tablets on the following page.



PATIENT SUMMARY OF INFORMATION ABOUT

VIAGRA®
 (sildenafil citrate) tablets

This summary contains important information about **VIAGRA®**. It is not meant to take the place of your doctor's instructions. Read this information carefully before you start taking VIAGRA. Ask your doctor or pharmacist if you do not understand any of this information or if you want to know more about VIAGRA.

This medicine can help many men when it is used as prescribed by their doctors. However, VIAGRA is not for everyone. It is intended for use only by men who have a condition called erectile dysfunction. **VIAGRA must never be used by men who are taking medicines that contain nitrates of any kind, at any time. This includes nitroglycerin. If you take VIAGRA with any nitrate medicine your blood pressure could suddenly drop to an unsafe or life threatening level.**

What Is VIAGRA?

VIAGRA is a pill used to treat erectile dysfunction (impotence) in men. It can help many men who have erectile dysfunction get and keep an erection when they become sexually excited (stimulated). You will not get an erection just by taking this medicine. VIAGRA helps a man with erectile dysfunction get an erection only when he is sexually excited.

How Sex Affects the Body

When a man is sexually excited, the penis rapidly fills with more blood than usual. The penis then expands and hardens. This is called an erection. After the man is done having sex, this extra blood flows out of the penis back into the body. The erection goes away. If an erection lasts for a long time (more than 6 hours), it can permanently damage your penis. You should call a doctor immediately if you ever have a prolonged erection that lasts more than 4 hours.

Some conditions and medicines interfere with this natural erection process. The penis cannot fill with enough blood. The man cannot have an erection. This is called erectile dysfunction if it becomes a frequent problem.

During sex, your heart works harder. Therefore sexual activity may not be advisable for people who have heart problems. Before you start any treatment for erectile dysfunction, ask your doctor if your heart is healthy enough to handle the extra strain of having sex. If you have chest pains, dizziness or nausea during sex, stop having sex and immediately tell your doctor you have had this problem.

How VIAGRA Works

VIAGRA enables many men with erectile dysfunction to respond to sexual stimulation. When a man is sexually excited, VIAGRA helps the penis fill with enough blood to cause an erection. After sex is over, the erection goes away.

VIAGRA Is Not for Everyone

As noted above (*How Sex Affects the Body*), ask your doctor if your heart is healthy enough for sexual activity.

If you take any medicines that contain nitrates—either regularly or as needed—you should never take VIAGRA.

If you take VIAGRA with any nitrate medicine or recreational drug containing nitrates, your blood pressure could suddenly drop to an unsafe level. You could get dizzy, faint, or even have a heart attack or stroke. Nitrates are found in many prescription medicines that are used to treat angina (chest pain due to heart disease) such as:

- nitroglycerin (sprays, ointments, skin patches or pastes, and tablets that are swallowed or dissolved in the mouth)
- isosorbide mononitrate and isosorbide dinitrate (tablets that are swallowed, chewed, or dissolved in the mouth)

Nitrates are also found in recreational drugs such as amyl nitrate or nitrite ("poppers"). If you are not sure if any of your medicines contain nitrates, or if you do not understand what nitrates are, ask your doctor or pharmacist.

VIAGRA is only for patients with erectile dysfunction. VIAGRA is not for newborns, children or women. Do not let anyone else take your VIAGRA. VIAGRA must be used only under a doctor's supervision.

What VIAGRA Does Not Do

- VIAGRA does not cure erectile dysfunction. It is a treatment for erectile dysfunction.
- VIAGRA does not protect you or your partner from getting sexually transmitted diseases including HIV—the virus that causes AIDS.
- VIAGRA is not a hormone or an aphrodisiac.

What To Tell Your Doctor Before You Begin VIAGRA

Only your doctor can decide if VIAGRA is right for you. VIAGRA can cause mild, temporary lowering of your blood pressure. You will need to have a thorough medical exam to diagnose your erectile dysfunction and to find out if you can safely take VIAGRA alone or with your other medicines. Your doctor should determine if your heart is healthy enough to handle the extra strain of having sex.

Be sure to tell your doctor if you:

- have ever had any heart problems (e.g., angina, chest pain, heart failure, irregular heart beats or heart attack)
- have ever had a stroke

- have low or high blood pressure
- have a rare inherited eye disease called retinitis pigmentosa
- have ever had any kidney problems
- have ever had any liver problems
- have ever had any blood problems, including sickle cell anemia or leukemia
- are allergic to sildenafil or any of the other ingredients of VIAGRA tablets
- have a deformed penis, Peyronie's disease, or ever had an erection that lasted more than 4 hours
- have stomach ulcers or any types of bleeding problems
- are taking any other medicines

VIAGRA and Other Medicines

Some medicines can change the way VIAGRA works. Tell your doctor about **any medicines** you are taking. Do not start or stop taking any medicines before checking with your doctor or pharmacist. This includes prescription and nonprescription medicines or remedies. Remember, VIAGRA should never be used with medicines that contain nitrates (see *VIAGRA Is Not for Everyone*). If you are taking a protease inhibitor your dose may be adjusted (please see *Finding the Right Dose for You*). VIAGRA should not be used with any other medical treatments that cause erections. These treatments include pills, medicines that are injected or inserted into the penis, implants or vacuum pumps.

Finding the Right Dose for You

VIAGRA comes in different doses (25 mg, 50 mg and 100 mg). If you do not get the results you expect, talk with your doctor. You and your doctor can determine the dose that works best for you.

- Do not take more VIAGRA than your doctor prescribes.
- If you think you need a larger dose of VIAGRA, check with your doctor.
- VIAGRA should not be taken more than once a day.

If you are older than age 65, or have serious liver or kidney problems, your doctor may start you at the lowest dose (25 mg) of VIAGRA. If you are taking protease inhibitors, such as for the treatment of HIV, your doctor may recommend a 25 mg dose and may limit you to a maximum single dose of 25 mg of VIAGRA in a 48 hour period.

How To Take VIAGRA

Take VIAGRA about one hour before you plan to have sex. Beginning in about 30 minutes and for up to 4 hours, VIAGRA can help you get an erection if you are sexually excited. If you take VIAGRA after a high-fat meal (such as a cheeseburger and french fries), the medicine may take a little longer to start working. VIAGRA can help you get an erection when you are sexually excited. You will not get an erection just by taking the pill.

Possible Side Effects

Like all medicines, VIAGRA can cause some side effects. These effects are usually mild to moderate and usually don't last longer than a few hours. Some of these side effects are more likely to occur with higher doses. The most common side effects of VIAGRA are headache, flushing of the face, and upset stomach. Less common side effects that may occur are temporary changes in color vision (such as trouble telling the difference between blue and green objects or having a blue color tinge to them), eyes being more sensitive to light, or blurred vision.

In rare instances, men have reported an erection that lasts many hours. You should call a doctor immediately if you ever have an erection that lasts more than 4 hours. If not treated right away, permanent damage to your penis could occur (see *How Sex Affects the Body*).

Heart attack, stroke, irregular heart beats, and death have been reported rarely in men taking VIAGRA. Most, but not all, of these men had heart problems before taking this medicine. It is not possible to determine whether these events were directly related to VIAGRA.

VIAGRA may cause other side effects besides those listed on this sheet. If you want more information or develop any side effects or symptoms you are concerned about, call your doctor.

Accidental Overdose

In case of accidental overdose, call your doctor right away.

Storing VIAGRA

Keep VIAGRA out of the reach of children. Keep VIAGRA in its original container. Store at room temperature, 59°-86°F (15°-30°C).

For More Information on VIAGRA

VIAGRA is a prescription medicine used to treat erectile dysfunction. Only your doctor can decide if it is right for you. This sheet is only a summary. If you have any questions or want more information about VIAGRA, talk with your doctor or pharmacist, visit www.viagra.com, or call 1-888-4VIAGRA. 23-5515-00-4

June 1999

VIAGRA®
 (sildenafil citrate) tablets

The blue diamond tablet shape is a trademark of Pfizer Inc.

COMMENTARY

By Lorraine Woellert

WILL A CHANCE FOR ASBESTOS REFORM BE MISSED?

It's what Supreme Court Justice David H. Souter called "an elephantine mass"—some 600,000 plaintiffs, more than 6,000 defendants, 61 companies in bankruptcy, and up to \$275 billion in liability costs.

Welcome to the booming business of asbestos litigation. Entrepreneurial lawyers are casting an ever-widening net to include plaintiffs who have been exposed to asbestos but show no signs of sickness, and to go after corporate defendants that never made or sold asbestos but might have used products that contain the fire retardant. The result: Cancer victims aren't getting compensated as payouts are diverted to other plaintiffs, companies are being pushed to the edge, and trial lawyers are making a mint.

The time is ripe for reform. Asbestos litigation has touched nearly every sector, and multimillion-dollar settlements are becoming almost routine. In recent weeks, Honeywell International Inc. and Halliburton Co. said they would shell out billions of dollars to make their asbestos problems go away. And Republicans, who long have sought to curb what they see as litigation run amok, now control Congress. With President Bush on board as well, will beleaguered companies with ties to asbestos soon get a break?

Don't hold your breath waiting for reform. Even with the wind at their back, K

Street lobbyists who represent insurers and other defendants can't agree on what they want.

"You've got as many opinions as there are companies, CEOs, and lawyers," says Representative Chris Cannon (R-Utah), who aims



York City try cases according to plaintiffs' "sickness."

The support of even a handful of plaintiff's attorneys could tip the scales in Congress—especially in the closely divided Senate, where the powerful trial bar so far has been able to block the 60 votes needed to pass any legal reform bill. But Corporate America is missing an epic opportunity because it can't settle on the package of reforms it wants. Several large companies, including General Motors, DuPont, and Dow, say that winnowing down the plaintiff pool to only those who are sick isn't enough. They want more ambitious measures, such as caps on damages or

A COSTLY CLEANUP

Lawyers are now looking even for healthy plaintiffs

tax breaks for asbestos payouts.

But if business pushes too hard for a more ambitious plan, it could lose any chance for reform. If lobbyists insist on measures that start to look too much like broad tort reform, lawmakers could get spooked. Another problem: House Judiciary Chairman F. James Sensenbrenner Jr. (R-Wis.), who is still seething because the Senate didn't act in 2000 after the House worked on an asbestos bill for two years. Next year, he'll give priority to medical malpractice and class action reform. "I don't think the stars are yet in the proper alignment on asbestos," Sensenbrenner says.

The Alliance knows it has one shot at a bill and is working overtime to bring the rest of K Street on board. "We have to be unified," says Julie A. Rochman, a lobbyist for the American Insurance Assn. Meanwhile, Kazan warns that the ties binding him to the business lobby are weak. "We support reasonable legislation," the plaintiff's attorney says. But if the legal reformers overreach, all bets are off.

Woellert covers legal affairs from Washington.

to offer an asbestos bill next year.

That's despite an unprecedented rift among trial lawyers that should provide an opening for business lobbyists to get a congressional deal done. The Asbestos Alliance, a coalition of manufacturers and insurers, is pushing legislation requiring that a person actually be sick before collecting damages; unlike today, simple exposure wouldn't be enough. The idea has the backing of a group of about 100 plaintiff's lawyers who have broken from the trial bar. Steve Kazan, an Oakland (Calif.)-based plaintiff's attorney who leads the group, says

exposed workers who aren't sick are collecting money that should rightfully go to cancer victims. The notion already is catching on in the judicial arena. On Dec. 19, New York State Judge Helen E. Freedman ordered that courts in New

RISING BURDEN

Through 2000, asbestos litigation cost an estimated \$54 billion, and that's expected to quadruple before claims stop being filed. How the payouts have broken down so far:

	BILLIONS
U.S. INSURERS	\$22
NON-U.S. INSURERS	8-12
CORPORATE DEFENDANTS	20-24

Data: RAND Institute for Civil Justice



WITH SKIERS' NUMBERS STAGNANT, MARKETING IS INTENSIFYING

RECREATION

AN UPHILL BATTLE ON THE SLIPPERY SLOPES

Can cheap tickets and snowboard "terrain" save the ski resorts?

Let it snow, let it snow, let it snow. Across the country, skiers' prayers have been answered. Resorts from New England to the Rockies opened early and have attracted record crowds. With plenty of white stuff expected this winter, the beleaguered ski industry seems poised for a good run after last year's weak season. "We're about as close to being euphoric as we could possibly be," says Adam M. Aron, chairman and CEO of Vail Resorts Inc., which owns five major ski operations.

But Aron knows that abundant powder alone does not a profitable season make. With the number of skiers averaging about 54 million a year for the past decade, competition for their dollars is as intense as a run down Corbet's Couloir at Jackson Hole in Wyoming. The two biggest operators, Vail Resorts and Intrawest Corp., have invested hundreds of millions of dollars into new facilities and acquisitions in recent years. But they have succeeded largely in stealing skiers from smaller hills, and disappointing earnings have damaged their stock prices. Nolan Rosall, president of RRC Associates Inc., a Boulder (Colo.) tourism consulting firm, sums up the sport's big problem: "We're not replacing skiers with new blood."

The industry is battling various trends. One is that more and more skiers are heading to Canada to take advantage of its cheap dollar. Last year,

1.7 million Americans visited Canadian ski resorts, twice as many as five years before. Perhaps even more disturbing for the industry is the fact that American children increasingly are inclined toward indoor pursuits. The culprit, of course: video games.

As for those youngsters who do take to the slopes, more and more of them are choosing snowboarding over old-fashioned skiing. With nearly one in three thrill seekers on the slopes today riding a snowboard, up from 8% a decade ago, resort operators must cater to them as never before. To harness the growing demand, most ski hills have now built special "terrain parks." And ski resorts are catering to kids in other ways, too:

ALOFT:
Boarders now buy 30% of tickets

Crested Butte Mountain Resort in Colorado, for example, blasts pop music on youth runs.

Cutting the price of lift tickets is another big part of the push to lure newbies. While resorts

have offered a variety of season passes for so long, they are tailoring them to customers more than ever. Resorts now offer a range of ticket combos, including midweek only, attendance-only, multiday, or multi-resort packages. And resorts are selling many more passes than they once did, boosting revenues. Lake Tahoe's Heavenly Ski Resort cut its pass price by two-thirds this year, to \$299, and has sold three times as many as last season.

Resorts also have unleashed a marketing blizzard. This year Intrawest expects to send out 22 million e-mails alerting skiers to discounts on airfares and accommodations. Many resorts feature live ski-cams for a taste of local conditions. And more skiers are booking vacations online. For its part, Vail says online reservations have more than doubled this season, helping boost the bookings made through its central reservations service by 13% over 2000.

Even as they try to lure new skiers, resorts have also spent heavily on their efforts to develop new sources of revenue. What the modern faux Alpine village lacks in charm, it more than makes up for in shopping, entertainment, and eating opportunities. Outdoor activities for the non-skier also abound, including sleigh riding, inner-tubing, ice skating, and paragliding. It seems to be paying off. The industry has managed to increase revenues 23%, to \$4.2 billion over the past five years. Moreover, the average ski resort now derives more than half its revenues from sources other than lift tickets.

Yet for all that, profits remain weak. Last year, Vail's earnings dropped 42%, to \$7.6 million, as revenues grew 13%, to \$615 million. Earnings at Intrawest, too, are soft: They fell 8%, to \$58 million on sales that rose 7%, to \$99 million. While some of the drop in earnings can be attributed

to price discounts after September 11, the real problem is that capital spending has soared to high levels and margins have dropped sharply. Vail and Intrawest had better pray the snow sticks—and the people come.

*By Christopher Palmeri
Los Angeles*



A BUMPY RIDE



▲ MILLIONS

Data: National Ski Areas Assn.

EDITED BY RICHARD S. DUNHAM

THE FCC: IT'S SHOW TIME FOR MICHAEL POWELL

For two years, Federal Communications Commission Chairman Michael K. Powell has talked about pushing big changes that could reshape the telecom industry. Now it's show time. Powell is rolling out an ambitious agenda, and votes on major proposals may begin as early as February. In a 3-2 Republican majority, that should be good news for Baby Bells, which have been crusading for less regulation. Well, maybe not. The reason: maverick Republican Commissioner Kevin J. Martin. The former Bush campaign lawyer is the swing vote now that the five-member commission has two Democrats, with the Dec. 10 addition of Jonathan S. Adelstein. Although Martin, 36, agrees with Powell's sweeping plans for more cross-ownership of media properties, he may part company on a key initiative to regulate the Baby Bells. "In a bizarre way, Martin could become the de facto chairman," says Lawrence J. Spiwak, president of the Benioff Center, a telecom think tank. That may be an exaggeration. But Martin, who was a crucial member of George W. Bush's inaugural team during the 2000 Florida recount, whose wife, Catherine, is now a top aide to Vice-President Dick Cheney, clearly is going to be a central player in the success or failure of the Powell agenda. With Martin's vote up for grabs, the chairman may have to horse-trade to get what he wants. That makes Adelstein, a former telecom aide to soon-to-be Senate Minority Leader Byron Dorgan (D-S.D.), more influential on issues such as extending broadband to rural areas.

The first big fight, however, will be over whether to deregulate local phone companies. The 1996 telecom act was meant to jump-start competition by forcing the local Bell monopolies to lease pieces of their local-calling networks to rivals at regulated rates. But Powell agrees with the Baby Bells that such deregulation has discouraged them from investing in their

networks. "It's driving investment out of the industry," says Verizon Communications lobbyist Tom Tauke. Powell wants to roll back the rules sooner rather than later.

Martin, though normally a deregulation advocate, prefers to let the states make the call, based on local competitive conditions. He may end up forging a majority with Democrats Adelstein and Michael J. Copps. The upshot: Powell may have to compromise, and in the end, rivals to the Bells may get a more favorable hearing from state regulators. Powell declined to comment, though an aide points out that he has long supported the authority of state regulators. Says Martin: "The states have a very important role to play in making sure there is a vibrant, competitive market."

Companies on both sides of the debate claim that economic studies bolster their positions. Equipment maker Corning Inc., for one, estimates that, without the rules, the Bells will spend \$46 billion building fiber networks over the next 10 years, and only \$5 billion if the rules remain in effect. AT&T argues that the rules ensure that more competitors survive, translating into higher overall investment.

Powell's deregulatory plans don't end with local phone networks. He also wants to unshackle the broadband business. Here, Adelstein may hold sway. He has made a top priority of closing the digital divide in rural America, and his Republican colleagues will have to convince him that deregulating broadband will foster investment there. GOP members will woo him in an effort to get a 4 to 1 majority in favor of deregulation. That's because federal courts have thrown back FCC rules passed along partisan lines, and a four-vote win decreases the likelihood of a court rejection. Also, a strong win on broadband will bolster an agenda that has lost momentum while waiting in the wings.

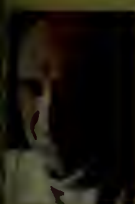
By Catherine Yang



POWELL: *Fights ahead*

CAPITAL WRAPUP

STEM-CELL SETBACK?



The backlash against the claimed birth of the world's first cloned baby has hurt the biotech industry's multimillion-dollar lobbying effort to allow continued research that could yield treatments for a wide range of illnesses, from Parkinson's disease to diabetes. Hours after the Raëlians, a secretive sect led by a Frenchman who calls himself Raël (above) and believes in space aliens, announced on

Dec. 27 that it had cloned a baby girl dubbed "Eve," the White House endorsed a House-passed bill that would ban all human cloning. That measure died in the Senate, largely because of efforts by the biotech lobby to persuade lawmakers to allow reproduction of embryonic stem cells.

President Bush has tried to walk a fine line in the supercharged political and ethical debate. While he opposes human cloning, he angered absolutists on both sides of the issue in 2001 by curbing but not banning government spending on stem-cell research. After

Eve, however, the White House's line is hardening. And Bush has the full support of incoming Senate Majority Leader Bill Frist (R-Tenn.), a surgeon and backer of limited research.

Biotech lobbyists and patients' groups believe they have the votes to block the all-out ban that's backed by a broad coalition of anti-abortion conservatives and liberals worried about a cloned "master race." But if Eve starts making appearances on prime-time TV, the politics of stem-cell research could change dramatically.

By Lorraine Woellert

NORTH KOREA

HOW DIRE A THREAT?

A primer on what's fueling Pyongyang's nuclear maneuver

North Korea's "Dear Leader," Kim Jong Il, is playing an unnerving game of nuclear brinkmanship. In October, Pyongyang said it had been secretly pursuing ways to enrich uranium, a precursor to nuclear-weapons production, in violation of a 1994 agreement. Now, it says it will reactivate an idle plutonium-based reactor in Yongbyon, 50 miles north of Pyongyang, that experts say is its main bomb-research facility. Pyongyang ratcheted up the tension by expelling U.N. nuclear-plant inspectors from the country. Whether this is a classic North Korean feint to extract international aid or a serious quest to make nuclear weapons, the crisis presents a hornets' nest of problems for governments



MILLION-MAN ARMY: The DMZ lies just 25 miles from Seoul

worldwide. Here are the core issues:

Is an impoverished North Korea really a threat to global security?

Absolutely. It has a million-man army

ready to cross a demilitarized zone just 25 miles from Seoul. North Korea has an array of missiles that can reach Japan from a launching site in P'yongyang, on the east coast, and it is developing missiles that could hit Alaska. North Korea also exports missile parts and technology. Iran's Shahab-3 missile, for instance, owes much of its technology to North Korean technology.

How quickly could North Korea develop nuclear weapons?

Actually, it may already have one or two nuclear weapons built from plutonium extracted before 1994, the

says. If Kim follows through on threats to fire up its mothballed nuclear facilities, spent fuel rods could be quickly converted into weapons-grade plutonium. The International Atomic Energy

COMMENTARY

By Moon Ihlwan

THERE'S A CRISIS IN THE SOUTH, TOO

The North Korean nuclear crisis is hot news in both the U.S. and South Korea. Americans see footage on their newscasts of goose-stepping North Korean troops and satellite photos of the Yongbyon nuclear complex. And they hear pundits wonder aloud how serious the threat is and what Bush & Co. should do about it.

Scary stuff. But it would give Americans a jolt if they could see what's being broadcast in South Korea. Sure, there's tape of protesters burning North Korean flags. Yet there's also footage of anti-U.S. rallies and reports of how South Korea's new President re-

sents Washington's high-handed attitude. Says Park Young Hoon, 33, a computer engineer: "I think our leader must be able to say no when he disagrees with the U.S."

The Administration of President George W. Bush doesn't have just a North Korean crisis on its hands. From the Seoul perspective, it has a South Korean crisis, too. It's not as dire as the one concocted by Dear Leader. But it's an alarming indication of how quickly Washington can lose touch with an essential ally.

Washington's mistake? It forgot that nations grow up. In the past 10 years, South Korea has moved from the brutal

politics of dictatorship to a raucous democracy and a new economic boom based on the consumer demands of a sophisticated middle class. Along the way, South Korea has blunted the power of its corporate *chaebol*, weathered the Asian crisis, and, under President Kim Dae Jung, reached out to North Korea for the first time in a meaningful way. "The difference from the past is that we now have dialogue channels with Pyongyang," says Yoo Jay Kun, a legislator in President-elect Roh Moo-hyun's Millennium Democratic Party, who will travel to Washington this month to discuss the nuclear issue.

To South Koreans, these achievements should earn them a full seat at the table in Washington. Instead, the South can never escape its status as a junior partner. In 1994, when the U.S. and North Korea signed a landmark nuclear agreement, South Korea

ESTIMATED RANGE OF NORTH KOREAN MISSILES**

THE KOREAN FACE-OFF



wanted to attack the facility, South Korea and Japan would oppose military action, which could trigger war on the Korean peninsula and perhaps even a missile assault on Japan. Pyongyang would lose in the end, but possibly at a grievous cost to the winning side. Instead of force, Washington is pinning its hopes on "tailored containment"—a U.N.-led effort to denounce North Korea's recent actions, plus the threat of tough economic sanctions and a crackdown on arms sales. That, Washington hopes, will force Kim's regime to choose between disarmament and economic collapse.

What kind of deal might Kim accept?

Pyongyang has said that a non-aggression pact with the U.S., establishment of diplomatic relations, and expansion of economic aid might defuse the crisis. Washington says no formal talks can take place until Kim gives up his nuclear ambitions. South Korean diplomats think a face-saving deal in which the U.S. pledges not to topple Kim's regime, plus a decent economic aid package, might still win the day.

If Washington accepted such a deal, U.S. officials would likely demand a halt to the sale of missile parts and technology, plus rock-solid proof that North

*INCLUDES 3,000 U.S. TROOPS

**LONGER-RANGE MISSILES ARE BEING TESTED

Data: Arms Control Association, International Institute for Strategic Studies

food aid, and Kim has apparently concluded that nuclear threats are the way to get them. Still, there's little doubt that the political survival of Kim's communist regime is the No.1 reason for the nuclear gambit.

What are Washington's policy options?

Although Washington will never entirely rule out destroying the North Korean reactor, Secretary of State Colin Powell says the U.S. isn't planning a preemptive strike. Even if the U.S.

refusal to lift sanctions might prompt Kim Jong Il to try nuclear blackmail. Washington paid little heed.

Irritation has hardened into anger since Bush took office and cut off talks with Pyongyang without much consultation with Seoul. Though relations are now a bit improved, outgoing President Kim still feels his Sunshine Policy toward the North was undermined by Washington conservatives who prefer sticks to carrots. President-elect Roh managed a last-minute

win by tapping into anti-U.S. sentiment and pushing for an autonomous foreign policy. The acquittal of U.S. servicemen accused of accidentally killing two Korean girls during military exercises added fuel to the flames.

Now we have the first crisis on the Korean peninsula in which Seoul and

Washington don't see eye to eye. Roh's position is clear, says Lim Chae Jung, his chief policy adviser: "The North must give up nuclear development. But I think it will do so once the U.S. promises to lift sanctions and guarantees its regime." That, however, would be a hard pill to swallow for an Administration determined to take a hard line against terror, nuclear or otherwise.

Chances are Seoul and Washington will bury their differences and figure out a way to contain the threat from Kim Jong Il. Roh is already talking tough about Kim, and the U.S. is signaling it will not attack unilaterally. But even if this crisis is defused, a new reality will remain. South Korea has changed. It's time Washington's attitude toward its ally changed, too.

Moon covers Korean politics and economics from Seoul.

agency thinks North Korea could restart the reactor in two months and have a half-dozen warheads sometime this summer.

Why is this happening now?

There are two theories: First, Pyongyang may be gambling that the U.S. is too fixated on Iraq to do anything drastic about North Korea's nuclear ambitions. The other factor may be that as a charter member of George W. Bush's "axis of evil," North Korea feels that confrontation with the U.S. is just a matter of time. Having nukes and missiles to deliver them gives Kim the ability to strike back in the event of a U.S. or South Korean attack.

What aren't economic factors at work here as well?

Yes. North Korea, in a drive to clear arable land, has pursued a policy of massive deforestation since the mid-1990s. This has led to devastating floods that have helped push down rice and maize production, which has fallen by more than 60% in the past 15 years. Repeated famines have killed hundreds of thousands, and the U.N. estimates that 57% of the nation's 23.2 million citizens are malnourished. In short, the country is desperate for both hard currency and



BURNER: Bitter resentment of the U.S.

from negotiations. But Seoul is up agreeing to shoulder most of the cost to build the civilian reactors South Korea got as part of the deal. Seoul has cost \$700 million so far, and only the foundations have been laid. As the decade advanced, Seoul makers warned that Washington's

Korea has stopped developing nukes.

What outcome would best suit North Korea's neighbors?

South Korean President-elect Roh Moo Hyun advocates dialogue—not saber-rattling—to calm tensions. Other officials have said that Washington's plan of economic isolation of the North won't work. And South Korean diplomats privately object to the ham-handed rhetoric the U.S. employs when dealing with Kim, which in their eyes only drives him more into isolation. Japan is slight-

ly more hawkish and could be spurred to develop its own nukes as a result of the crisis, but it wouldn't sign off on any military adventures. China would prefer a non-nuclear North Korea with enough international assistance to feed its people. For China, a war on the Korean peninsula or economic collapse in North Korea would create, at the very least, a new refugee problem. On the other hand, if China helps persuade Pyongyang to back down, it could claim to be a credible partner in the global war on terrorism.

Would North Korea really press the button on a nuclear attack?

That's doubtful, given the likelihood of an American response and the result: mageddon for Kim's regime. Yet nobodies want to contemplate a world in which an economically depressed North Korea is selling portable nuclear weapons or weapons-grade plutonium to the highest bidder. Somehow, this renegade regime has to be stopped before too late.

By Brian Bremner in Tokyo and Moon Ihlwan in Seoul

COMMENTARY

By Chester Dawson

STOP FEEDING THE LOSERS, TOYOTA

Why would the world's third-largest auto maker act like the Salvation Army? That's a question Toyota Motor Corp. investors should be asking after the Toyota group agreed on Dec. 27 to inject \$83 million into Tomen Corp., a money-losing Japanese trading house in search of a new lease on life.

Tomen hit Toyota up for dough because both belong to the same extended corporate group, or *keiretsu*. Winners subsidizing losers: It's a time-honored Japanese tradition. What's amazing is that the practice persists in Japan's stressed-out economy. This is the second big bailout since 2000 for Tomen, which has been trying to right its ship for years. So even though the aid to Tomen is pigeon feed for Toyota, with its \$125 billion in worldwide revenue, there's a risk that other moribund companies will now turn to the carmaker—and other healthy Japanese companies—for handouts.

Toyota could erase those concerns by stating clearly that Tomen is a unique case. But Fujio Cho, Toyota's president, has indicated the opposite, hinting he's willing to bail out at least one other troubled firm from the *keiretsu*. On Dec. 17, he didn't rule out helping recapitalize distressed lender UFJ Holdings Inc. Indeed, Toyota's lifeline to Tomen was an indirect holiday gift for UFJ, which as chief banker to Tomen—as well as Toyota—would suffer if the trading house could not keep paying off its loans.

Officially, Toyota is distancing itself from the Tomen deal, saying it

was mainly handled by its trading arm Toyota Tsusho Corp., which is Tomen's largest shareholder, with a 12% stake. But that's disingenuous. Toyota owns a controlling 23% of Toyota Tsusho, which can't so much as blink without permission from its big brother. Besides, Toyota Motor says it may inject some funds directly into Tomen.

Granted, Toyota can afford to help. It's flush with record profits, is on a roll in the lucrative U.S. market, and is sitting on \$16 billion in cash. This outstanding performance has earned Cho a place as one of *BusinessWeek's* "Best Managers" this year (page 61).

But it's not as if Cho doesn't have any other use for the money lavished on Tomen. Toyota needs to continue

spending heavily on cutting-edge technologies such as hydrogen-fuel-cell-powered cars to keep a step ahead of rivals in the U.S. and Europe. It needs to keep pumping money into programs to upgrade its existing lineup. And it could boost its paltry 25¢ annual dividend.

So far, Toyota investors seem oddly unfazed by the Tomen news. Standard & Poor's says the Tomen aid is too small to affect Toyota's creditworthiness. But S&P warns of a slippery slope. Toyota risks being asked to shore up other ailing companies, according to an S&P report. If it opens its purse wider, the report says, "going forward, the rating on Toyota Motor could come under pressure."

There's no doubt Tomen is in trouble. The company reported on Dec. 27 that it expects a loss of \$430 million on sales of \$16.9 billion for the fiscal year ending in March. The Toyota group offered not just cash but management oversight, which might help Tomen get back on its feet. Even if it does, however, the long-term pay-off for Toyota is questionable. At best, it'll get a merit badge, a bigger piece of a second-tier trading company, and a marginal return on its investment. Meanwhile, it's adding ballast to a bankrupt corporate model in which good companies help bad ones survive—to the ultimate detriment not only of their shareholders but also the struggling Japanese economy.

Dawson reports on Japanese business from Tokyo.





trying to get Al from
the warehouse to talk
to Lou in sales



your plans for a
3-day weekend

From the back office to the front, business software that gets employees to share data so you can get to your timeshare.

Departments that have never even met are now communicating. Which means greater productivity. More continuity. And, with data entered just once, less errors. One scenario: integrate SalesLogix with MAS 90, and your sales force, in tune with the warehouse, becomes a force in sales. To learn more, call 1-866-308-BEST or visit www.bestsoftware.com.

best
software

insights for the life of your business

FRANCE

WHAT'S THIS? THE FRENCH LOVE McDONALD'S?

Gallic twists are luring crowds—and giving the parent a boost

After teaching the world about *haute cuisine*, France is ready to offer another culinary lesson: how to sell *le fast food*. McDonald's Corp.'s French subsidiary is booming even as its parent is struggling. The Oak Brook (Ill.) company announced its first-ever quarterly loss on Dec. 17. Yet as the parent is shuttering 175 outlets worldwide, a new McDonald's opens in France every six days. What's more, the typical French customer spends \$9 per visit, vs. only \$4 in the U.S., even though a Big Mac costs about the same in Paris as it does in New York.

Just as remarkable, McDonald's France appears to be breaking every rule in an efficiency-obsessed industry. It's spending lavishly to refit restaurants with chic interiors and extras such as music videos that entice customers to linger over their meals. And while McDonald's in the U.S. has tried to speed up service by streamlining menus, France has gone in the opposite direction, adding items such as a hot ham-and-cheese sandwich dubbed the Croque McDo. "We are upgrading the experience, making McDonald's a destination restaurant," says Denis Hennequin, the French unit's chief executive.

McDonald's success in France could offer the chain a recipe for boosting sales overseas, a key to future growth as the U.S. market has become saturated. There's no question McDonald's needs a lift. CEO Jack Greenberg resigned on Dec. 5 after failing to reverse a profit slide. He has been replaced by the former head of the company's international operations, James R. Cantalupo. Estimates are that earnings in 2002 grew a disappointing 7%, to \$1.8 billion, on sales of



LOOKS COUNT
Spending on classier design has paid off

\$15 billion. Moody's Investors Service has even put McDonald's debt rating on credit watch for a possible downgrade.

Through all the turmoil, Hennequin has steered a deft course in France, where mistrust of the U.S. runs deep. When antiglobalization activist José Bové was hailed as a hero for razing a partially built McDonald's in the south of France in 1999, Hennequin, 44, responded with light-hearted newspaper ads depicting fat, ignorant Americans who could not understand why McDonald's France

used locally produced food that was genetically modified. "Some of our vertising is over the edge, but you have to have a sense of humor," says the year company veteran.

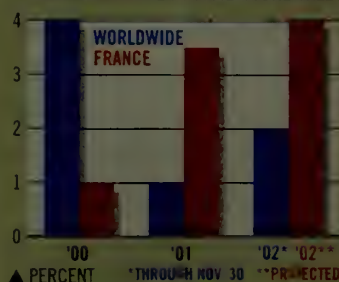
McDonald's France also has defused criticism by adapting its restaurant signs to blend with local architecture. Some outlets in the Alps now have wood-and-stone interiors reminiscent of a chalet. "The atmosphere is friendly," says Michel Schwinn, a 16-year-old eating lunch at a McDonald's in a 19th-century building in Mulhouse, eastern France.

The updated style, now found in about half of McDonald's 950 French outlets, doesn't come cheap. Michel Réglat, a Toulouse franchisee, redid the interiors of 12 of his 14 restaurants, including one with bar stools made from bicycle seats. Réglat figures he spent 20% more than he'd used McDonald's standard designs. But sales at the spruced-up outlets have soared as much as 20%. True, McDonald's *à la française* would almost certainly fail in the U.S., where fast-food customers mainly want quick service and cheap, tasty eats. McDonald's stumbled in 2001 when it tried to import the McCafe concept from Australia. U.S. forays into pizza, for instance, also have flopped. "They need to

be careful not to overdiversify," says Philippe Hersant, a French restaurant consultant. Still, the company is eager to replicate its Gallic success stateside. McDonald's says its theater-themed outlet in New York City's Times Square was inspired by France's push for spiffed-up interiors. The Times Square franchisee is aiming for annual sales of \$5 million, well above the \$1 million that is the U.S. average. We know, the new French restaurant in your town could be McDonald's.

By Carol Matlack in Paris, with Pallavi Gogoi in Chicago

HUNGRY FOR MORE
McDONALD'S RISE IN SAME-STORE SALES



Data: McDonald's Corp. McDonald's France

A question for all who seek

COMMUNICATION FULFILLMENT:



*How can
the company that brings you*

**THE BEST VOICE & DATA
TECHNOLOGY & SERVICES**

bring you to

BUSINESS NIRVANA?

HAS YOUR COMPANY realized its full communications potential?

Have voice and data married harmoniously on your network?

Are your employees happier, more productive and more accessible?

Can you sit like me? Kidding. It's not required. Read on. Perhaps there is opportunity for your business to reach the next level.

world leader in enterprise telephony

In Avaya, you'll find deep experience and leadership in voice communications brought to the world of IP. Here, you'll be provided with one of the most reliable, secure ways to bring voice over your data network. With one of the strongest sets of voice apps anywhere. Things like IP telephony, extension to cellular, and 6-party conferencing. This stuff is so cool you won't want to hide it in the closet. And you can begin to feel the savings of IP convergence for about the cost of a standard PBX upgrade. There are also fewer obstacles on that path to IP telephony. Avaya Enterprise Class IP Solutions (ECLIPS) are open standards-

based, to integrate into your current network. Your path and your pace are always respected.

master of worldwide contact centers

In the state of Avaya, the multimedia contact center is vital to the well-being of the organization. It allows you to interact with customers regardless of channel, and get insightful reporting and analysis. That helps you serve people the way they want to be served. Reports of happier, more loyal customers have been confirmed. All thanks to the world's foremost provider of contact centers.

#1 in voice messaging

Over 100 million voice mailboxes in use. Now we take you to a new level of mobile productivity—Unified Communication. Imagine—speech and wireless access not just to messages but to email, global directories, conference calls and calendars. You can service clients from anywhere, via any device. A fluid convergence of technologies that frees the spirit and cuts the cord to the desk. Good karma abounds.

most comprehensive global services

In the state of Avaya, you can choose from any or all of our services. From network assessment and design to integration and implementation, all supported by the world's best management and maintenance services. Avaya Global Services provides multi-vendor, multi-technology expertise, with the deepest experience in voice and more than 18 years of data experience. Glitch in the network? It gets fixed. Often, without anyone on your end even knowing about it. In the state of Avaya, diagnostics begin within 90 seconds, and 96% of all alarms are resolved remotely.

repeat after me...

Avaya. Avaya. More than a communications company. The next level for businesses to operate on. If none of this page was news to you, you're there. If not, reach for the phone. And reach Avaya. It's a higher plane of communication. Avaya.com/state or call 866-GO AVAYA today.



MEXICO

BUY A TOASTER, OPEN A BANK ACCOUNT

Banco Azteca caters to the little guy—in appliance stores

Pedro Rubio was in a bind. The 56-year-old carpenter needed to come up with thousands of pesos in notary fees to get legal title to his modest cinderblock house. Otherwise, he feared that squatters would stake claim to it when he was away working at construction sites. But Rubio, who earns the equivalent of \$600 a month, had no proof of income and no bank account.

So on a recent morning, he walked through his gritty Mexico City neighborhood to an Elektra appliance store. At the back, behind an aisle of microwave ovens, he sat down with a loan officer from a new bank, Banco Azteca. Unfazed by Rubio's worn jeans and unshaven face, the officer drew up an inventory of his possessions: TV, refrigerator, washing machine—all bought on credit at Elektra in the past three years. Accepting these as collateral, the bank approved Rubio's application within 24 hours. The nine-month, \$200 loan carries a 48% annual interest rate, usurious by U.S. standards but not in Mexico, where the banking sector is still recovering from the effects of the 1994 peso crash. "It's a little expensive," says Rubio. Still, he says he can swing the weekly \$8 payments. In any event, he adds, "I don't really have any other option."

The first new Mexican bank in nearly a decade, Banco Azteca has set its sights on a large but underserved segment of the market: the 16 million households who earn \$250 to \$1,300 a month. They toil as taxi drivers, factory hands, and teachers and aren't welcome at most banks, which consider small accounts a nuisance. Even though these workers boast a combined income of \$120 billion, only 8% have savings accounts. "This is something a lot of emerging-market countries need: a new source of domestic borrowing for credit-based growth," says Philip J. Guarco, banking analyst for

BANCO AZTECA AT A GLANCE

TARGET MARKET The 70% of Mexicans who earn \$250 to \$1,300 a month and are not welcome at conventional banks

PRODUCTS Savings accounts, time deposits, one-year personal loans of up to \$350, mortgages, pension funds, wire transfers

BRANCHES 820 so far

CAPITAL BASE \$25 million

Data: Banco Azteca

OPEN WINDOW IN MEXICO CITY Some analysts fear forecasts are too rosy

Moody's Investor Services in New York. The bank, which began operations on October 30, is the brainchild of Ricardo Salinas Pliego, head of a \$2.2 billion

tail-media-telecommunications empire that includes Grupo Elektra, Mexico's largest appliance retailer. The venture seeks to exploit Elektra's extensive store network along with its 50-year track record in consumer finance. Some 70% of Elektra's merchandise is sold on credit, so it makes sense to convert its credit departments in each store into bank branches. Moreover, the company sees little risk in the venture, since it boasts a sterling 97% repayment rate. "I know this segment of Mexican society better than anyone else," says Banco Azteca President Carlos Septién. He forecasts a return on investment of 15% to 20% in its first three years.

Some analysts are skeptical. "The business model is smart, but we believe the projections of growth and profitability are too aggressive," says Joaquin López Dóriga, an analyst at Deutsche Bank Securities in New York. Meanwhile, the holders of \$275 million in Elektra bonds are worried about how the new bank will affect them. They're concerned they'll be second in line to Banco Azteca depositors if Grupo Elektra hits a rough spot. Partly because of such concerns, Elektra's stock has dropped 16% since the end of October.

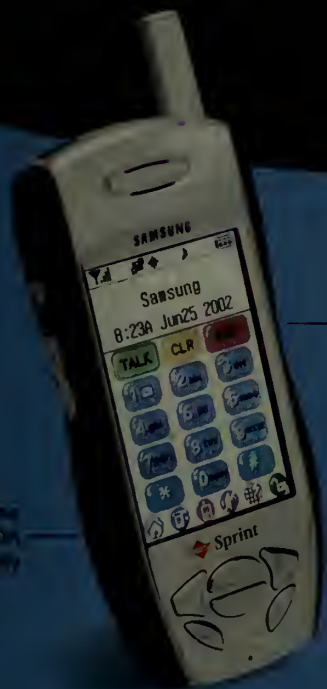
Banco Azteca execs are convinced that investors will come around. Although the bank may cater to Mexico's lower-middle class, its parent has spared no expense. The group has spent \$20 million a year over three years on information technology, including high-tech "fingerprint readers" that eliminate the need for customers to present IDs or passbooks. The bank also commands a 3,000-strong army of motorcycle-riding loan agents. The tote Compaq iPAQ handheld computer loaded with Elektra's rich database, which includes customers' credit histories and even names of neighbors who might help track down delinquent debtors.

Septién, a veteran commercial banker and his 7,200-person staff have taken pains to create a welcoming atmosphere. Branches are decorated in the green, red, and white of the Mexican flag and posters with the Azteca motto, "A bank that's friendly and treats you well." Rubio, the carpenter, agreed: "They treat me well at this bank," he says. For Banco Azteca, it could be the start of a long, and lucrative, relationship.

By Geri Smith in Mexico City

SAMSUNG

DigitAllclout



Advanced
Web Browser

Samsung's Palm Powered™ i330 phone. Now everyone can have a powerful connection.

Know all, see all with this versatile device. It packs 16 MB RAM, a vivid, full-color display and PalmOS® functions into one tool that powers productivity. Access your company email, calendar and contacts with PCS Vision™ from Sprint. Lean and light yet feature-rich, the i330 is advanced technology that advances agendas.

- 16 MB of memory for enhanced storage capacity
- Color screen for clear images and graphics
- Enhanced Internet experience
- Optional camera attachment to capture and store photos

Ready to connect? Visit www.samsungusa.com/wireless or call 1-800-SAMSUNG (726-7864) for information on products and accessories.

SAMSUNG DIGITall
everyone's invited™

DigitAllwhere?

Sprint Store
The PCS Center

**circuits
city**

COMPUSA
MONTREAL AMSTERDAM CHICAGO CHINA

thin
very thin
light
very light

now at circuit city



It's OK to stare. But what if it were yours? What if you pulled it out from your portfolio and laid it down on the table? **Imagine.** The longing looks of colleagues, friends, Perkins in accounting. The green-faced envy. You'd become the center of attention without saying a word.

If you believe that life is defined through quiet understatement, then this is the notebook* for you.



is the exclusive nationwide retailer of **SHARP™** lightweight notebooks

*This is just one of the lightweight Sharp™ notebooks available at Circuit City. Come in to see and hold the lightweight future for yourself or learn more online at circuitcity.com.

EDITED BY ROSE BRADY

IRAN: WILL ECONOMIC REFORMS KEEP THE MULLAHS ON TOP?

Is Iran's Islamic Republic unraveling? That's how it has looked of late. December witnessed the largest student demonstrations against the mullah-controlled regime since 1979. Reform-minded President Mohammed Khatami, who has tried and failed to break the grip of the fundamentalist clerics, has been threatening to resign. His departure, some say, could discredit the mullahs and finally trigger the popular upheaval that would end in their downfall. But another view is emerging. In this scenario, the mullahs don't lose, they capitalize on public frustration. The result could be a pragmatic regime—even one willing to deal with the U.S.

For starters, the clerics still have room to maneuver. The student groups demonstrating are badly fragmented, and, more important, their protests so far show little sign of spreading to the general population, which is weary of being pulled in conflicting directions by political life. "People are tired of being sacrificial lambs. They are more looking out for their own interests," says Siamak Namazi, a Tehran political analyst. Even the students are sick of Khatami, who once enjoyed rock-star status in Iran's campuses.

What's of more concern to many Iranians is the poor quality of life. They blame Khatami for wasting seven years on a quest to liberalize politics while failing to improve public services in Tehran, where traffic jams and pollution dominate. Iranians fault the government for not creating enough jobs to cut unemployment, now officially at 16% but probably higher. This shift in public priorities is giving the initiative to a group of moderate conservatives led by ex-President Ali Akbar Hashemi Rafsanjani, the pistachio grower considered Iran's most adroit politician. Rafsanjani, who as President made big strides in liberalizing the economy, suffered a humiliating loss at the hands of Khatami's reformers in the

2000 parliamentary elections. But he has kept great influence as head of the Expediency Council, which rules on disputes between Parliament and the hard-line Guardian Council. Rafsanjani has suddenly become more visible, speaking on everything from U.S. policy to unemployment.

Rafsanjani argues that the regime should focus on improving the economy and set aside Khatami's pursuit of broader political freedoms. Using an economic reform platform, he is laying the groundwork for his faction's victory in parliamentary elections in 2004 and presidential elections in 2005. While he is unlikely to run for President, he may back a candidate such as former Culture Minister Ataollah Mohajerani, a pro-business centrist whom he can manage.

Could a government of moderate conservatives bring more change? The Rafsanjani crowd is certainly more liberal on economics than Khatami's camp, which includes socialists who have resisted market reforms. A Parliament and President that agree on the agenda may be able to liberalize faster than Khatami's administration—though a new government would still face the entrenched interests. Rafsanjani also represents a substantial group of right-of-center intellectuals who favor breaking the logjam on relations with the U.S. Since it would enjoy the religious Establishment's support, a Rafsanjani-influenced government would have

better credentials to deal with that hot issue.

Rafsanjani may even play a key role in any upheaval triggered in Iran by a U.S. war on Saddam Hussein. Analysts say the ex-President will work to prevent hard-liners from any crackdown, such as declaring a state of emergency, that would aggravate the situation or tempt a U.S. intervention. It's realpolitik, Iranian-style—and it's how Rafsanjani and his camp aim to keep the Islamic regime alive.

By Stanley Reed in London



RAFSANJANI: *Rising profile*

GLOBAL WRAPUP

AMERICAN OUTPOST IN AFRICA

President George W. Bush recently postponed a planned swing through Africa scheduled for January so that he could oversee the U.S. military buildup in the Persian Gulf. But that doesn't mean Africa has fallen off the administration's radar screen.

In fact, the Horn of Africa is becoming an important military outpost for the U.S. war on terrorism. A contingent of 900 U.S. Army troops, Special Operations forces, and CIA paramilitaries has taken over an abandoned

French Foreign Legion post in Djibouti, just across the Gulf of Aden from Yemen, the ancestral homeland of Osama bin Laden and a hideaway for terrorists forced out of Afghanistan. The unmanned Predator drone that fired a missile on a car carrying alleged al Qaeda operatives in a remote part of Yemen in November is widely believed to have come from the Djibouti base, known as Camp Lemonnier.

The outpost is the first in Africa since Cold War-era Strategic Air Command bases in Morocco and Libya, and intelligence listening posts in Ethiopia

were closed in the 1960s and 1970s. Now, talks are under way with Ethiopia and Eritrea about additional bases. Nations throughout the region are being urged to share intelligence, grant overflight rights, and allow U.S. access to military airfields for a war on Iraq. The war on terrorism is also forcing the U.S. to pay more attention to Africa's failed states. Djibouti may prove a key base from which to observe Somalia, for example, which has no central government and which analysts fear could harbor terrorists.

By Paul Magnusson in Washington



THE BEST

MANAGE

If ever there was a year to examine the many ways in which managers succeed—and fail—turbulent 2002 was it

The year 2002 will surely be remembered as the *annus horribilis* of business. It was a time of tumult and reassessment, high drama and low comedy. Corporate crime and greed were spectacularly exposed in companies that had once been praised, run by executives who had once been trusted. It was the year Enron set new lows in corporate ethics, while WorldCom broke records for the size of its bankruptcy. It was also the year we learned the Rigas family may have defrauded Adelphia Communications of some \$1 billion, Bernie Ebbers borrowed \$408 million from WorldCom, and Samuel Waksal urged his daughter and father to trade on inside information he gave them about ImClone

Systems Inc. Andrew Fastow, ex-chief financial officer at Enron, faces no fewer than 78 felony charges. The outside auditors and the supposedly independent directors? They pleaded ignorance.

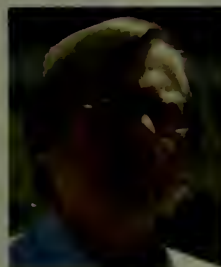
Chief executives seemed startled by the ridicule, distrust, and outright contempt they faced. At the same time, they had to contend with an economy that edged ever so slowly toward a recovery but kept falling short. If ever there was a year to examine the many ways in which managers succeed—and fail—this was it.

The best executives responded by providing more information about company operations to dispel suspicions and then they got back to work. Some—Andrea Jung at Avon, A.G. Lafley at Procter & Gamble, and Robert Tillman at Lowe's— even managed to excel, despite the ex-

BusinessWeek online

For more on the managers, go to the Jan. 13 issue online at www.businessweek.com.

THE BEST & WORST) MANAGERS OF THE YEAR



mely trying conditions. Others, however, such as Jack Greenberg, the abruptly placed head of McDonald's, and Jean-Marie Messier, the ex-chief of Vivendi Universal, were unable to outrun their problems. They were not alone: We've included more than a dozen new executives who've taken over major companies in 2002. In a year as turbulent as this one, we decided to take a new approach to our annual wrap-up of the year's best managers. Along with the best, we've also looked closely at the worst executives, the fallen, indicted (and those under fire), and managers to watch in the year to come. Many of the names are familiar. Last year, for example, we called Dennis Kozlowski one of the best managers of 2001, citing his ability to lead Tyco International through a recession that flattened most of

its counterparts. What we didn't see was that the company was struggling to keep up appearances as investigators were eyeing Kozlowski. Now you can find him in the section called Perp Walk. Two years ago we praised Sandy Weill at Citigroup for making the huge financial firm his own, elbowing out his co-chief executive and installing his numbers-obsessed loyalists in key positions. With Citi enmeshed in almost every scandal to hit Wall Street in 2002, we named Weill one of the worst.

BusinessWeek surveyed its staff of some 144 writers and editors in New York and in 21 bureaus around the world to decide whose performance should be lauded and whose deserved a different kind of renown. We figured it was the best way to commemorate the year just past—and to look ahead to the one just beginning. □

THE BEST MANAGERS

60

Steve Ballmer, Colleen Barrett & James Parker, Rich Barton, Fujio Cho, Michael Dell, Timothy Donahue, Hank Greenberg, Andrea Jung & Susan Kropf, Dick Kovacevich, Ken Kutaragi, A.G. Lafley, Reuben Mark, Fujio Mitarai, Les Moonves, Joe Neubauer, Michael O'Leary, Jorma Ollila, Lindsay Owen-Jones, Stefan Persson, Lee Scott, Jim Sinegal, John Thompson, Robert Tillman, Rick Wagoner, Meg Whitman

MANAGERS TO WATCH

61

Jeffrey Barbakow, Steve Case, Doug Daft, Jamie Dimon, John Dooner, Michael Eisner, Carly Fiorina, Bill Ford, Li Ka-shing, Scott McNealy, Rupert Murdoch, Charles Schwab & David Pottruck, Terry Semel, Glenn Tilton, Edward Whitacre

THE NEW BOSSES

77

James Adamson, Edward Breen, August Busch, Louis Camilleri, Michael Capellas, David Cote, Jean-René Fourtou, Sallie Krawcheck, Richard Notebaert, Sam Palmisano, Dick Parsons, Paul Pressler, Patricia Russo, William Weldon

THE WORST MANAGERS

78

Paul Allen, Joe Berardino, Dan Brewster, Edgar Bronfman, Dick Brown, Chuck Conaway, Charles & James Dolan, Peter Dolan, Jack Greenberg, Bill Harrison, Richard Kogan, Gerald Levin, Barry Melancon, Jean-Marie Messier, Thomas Middelhoff, Lukas Mühlemann, Joseph Nacchio, Bob Pittman, Chuck Watson, Sandy Weill

THE PERP WALK

86

Franklyn Bergonzi, David Birmingham, Franklin Brown, Giles Darby, David Duncan, Andrew Fastow, Martin Grass, Thomas & Florian Haffa, Michael Kopper, Dennis Kozlowski, Gary Mulgrew, John Rigas, Eric Sorkin, Scott Sullivan, Mark Swartz, Sam Waksal, Frank Walsh

UNDER FIRE

87

David Colburn, Bernie Ebbers, Bob Georgine, Jack Grubman, Sanjay Kumar, Martha Stewart, Gary Winnick

THE WHISTLE BLOWERS

90

Marta Andreasen, Cynthia Cooper, Barron Stone, Sherron Watkins

THE WELCH LEGACY

92

Stephen Bennett, Jeff Immelt, James McNerney, Robert Nardelli, Jack Welch, Gary Wendt

THE BEST MANAGERS

SUSAN KROPF & ANDREA JUNG

Avon Products

Andrea Jung woke up on Jan. 3, 2002, to potential disaster. The Argentine peso had been devalued, the economy was reeling, and Avon Products Inc., the company Jung heads, was going to feel the pain: New York-based Avon relies on Argentina for 5% of its sales. Jung had promised investors earnings of \$2.30 a share, and

in one devastating moment 5¢ per share had been wiped out. A few months later, Brazil, another important market, went through a similar crisis.

Jung and her No. 2, Chief Operating Officer Susan J. Kropf, have faced quite a few international business and currency challenges since their promotions in late 1999. "There hasn't been an easy quarter since I took over," says Jung, 44. Even so, Avon's stock price climbed 19% in 2002, compared with an average 2% drop for personal products stocks.

While Jung has updated the Avon product line and launched new ads featuring tennis stars Venus and Serena Williams, it was the more mundane changes that helped Avon overcome its South American problems while improving gross margins. An internal overhaul, which Kropf is overseeing, has already cut 10 days off its inventory turns, reduced product development cycles by more than 40%, and should trim total costs by \$230 million during the next three years. "It's never over," says Kropf, 54, a 32-year Avon veteran. "You just keep jumping the bar."

Argentina was ugly, but Avon has done beautifully in many overseas markets in 2002. Central and Eastern Europe is now a \$500 million market. Sales in China have increased 30%. And the number of Avon reps in the U.S. is growing for the first time in years. That's a cosmetic improvement that really means something. □

KEY ACCOMPLISHMENTS

>> 2002 will be Avon's third consecutive year of double-digit EPS growth

>> The number of active representatives is also growing—up 10% in the most recent quarter





Michael O'Leary

air

Michael O'Leary is the man who made air travel affordable for millions of Europeans. When the industry deregulated five years ago, the 47-year-old Irishman was the first to offer discount fares throughout Europe. It has made Ryanair Holdings PLC Europe's most profitable player. "We've beaten the competition—from British Airways to Alitalia to Lufthansa—and won them away," says O'Leary. The numbers back him up. In 2002, his airline is expected to post a 49% in-

crease in pretax profits, to \$257 million, on a 32% surge in revenues, to \$826 million. In the past two years, he has more than doubled passenger manifests, to 15 million, and he plans to do it again by 2005.

O'Leary's philosophy is simple: "Our strategy is like Wal-Mart: We pile it high and sell it cheap." That means using small airports, where planes can get back in the air in just 20 minutes. Free meals? Forget about it: Even a bottle of water sets customers back \$3. Ryanair's success has inspired copycats. But with fares half those of its nearest rival, this airline is soaring. □

KEY ACCOMPLISHMENTS

>> First-half profits of \$150 million exceeded those for all of 2001, on net margins of 32.5%

>> Biggest market capitalization of any European airline, at \$6 billion

Chuncho Cho

ota Motor

Chuncho Cho, president of Toyota Motor Corp., is known for his easygoing personality. He doesn't let his title fool you. Cho has set an ambitious course for his company—and is delivering. Despite a shrinking home market and worries about a slowdown in the U.S. in 2003, Cho, 65, has steered Toyota to record profits. The world's third-largest auto maker (after General Motors Corp. and Ford Motor Co.) posted a 90% jump in net profits, to \$6.6 billion, during the half-year through September. Sales rose 15.4%, to \$65.7 billion.

Cho's greatest legacy may be his commitment to making Toyota a truly global carmaker. He's expanding production in the U.S., moving into East-

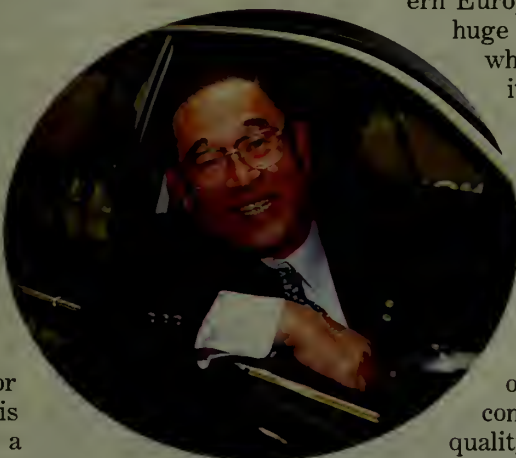
ern Europe, and making a huge bet on China, where Toyota opened its first factory last October. All told, Toyota wants 15% of the world's market—up from a current 10%.

To get there, Cho needs to nurture the Toyota culture of cost containment and quality. That's why he set up the Toyota Institute, an in-house executive-education program. Cho even moonlights as a lecturer. A fitting post for a master of international relations. □

KEY ACCOMPLISHMENTS

>> Boasts stock market capitalization of \$94 billion, more than DaimlerChrysler, Ford, and GM combined

>> Cinched deals for new factories in China, the Czech Republic, and Poland



MANAGERS TO WATCH

Some of the honchos who have surprised us before could do so again in 2003

Making a Case for growth

With blame for the disastrous AOL Time Warner Inc. marriage resting largely on his shoulders, Chairman **STEPHEN M. CASE** found himself in the cross-hairs last year. He dodged that bullet, but might not be as lucky in 2003. Case, 44, is working closely with AOL unit execs to develop a new strategy. But his fate depends on his ability to convince investors that the AOL unit, which he founded, can drive company growth rather than drag it down.



The job at Schwab

Pummeled by a plunge in equities trading, Charles Schwab Corp.'s co-CEOs, **CHARLES R. SCHWAB** (left) and **DAVID S. POTTRUCK**, have a huge task ahead of them. They need to resolve operational problems at Schwab's private banking unit. And they need to convince customers—jaded by Wall Street conflicts of interest—that financial advice uninfluenced by investment bankers is worth paying for.



An adman's lament

Weak ad spending. Accounting problems. Acquisition heartburn. For **JOHN J. DOONER JR.**, 53, chairman and CEO of Interpublic Group of Cos., it wasn't what his years as a client-service ace at IPG's McCann-Erickson Worldwide Inc. prepared him for. Even so, he has cleaned house and scoured the books. Now all he needs is a COO to shore up his weak spots and a way to get IPG's varied units to work as one.



THE BEST MANAGERS

MICHAEL DELL

Dell Computer

Of all the good news Dell Computer Corp. can record in its 2002 annual report, one item stands apart:

On Nov. 16, the company made its highest appearance ever in the TOP500, a closely watched

ranking of the world's speediest supercomputers put together by a consortium of computer scientists. At No. 22, Dell's entry was no ordinary PC but a colony of thousands of inexpensive servers linked together to equal the power of a mainframe.

If anyone in the tech biz still needed proof that CEO Michael S. Dell is shooting for dominance beyond the desktop, this was it.

With Dell's 11.8% stake in the Austin

(Tex.) company he founded 18 years ago now worth a cool \$8.5 billion, you might expect to find him kicking back on a beach, not plotting a brash foray into the rarefied supercomputer market. But at 37, the boyish-looking Dell is still delivering growth and showing no signs of easing off his weary rivals.

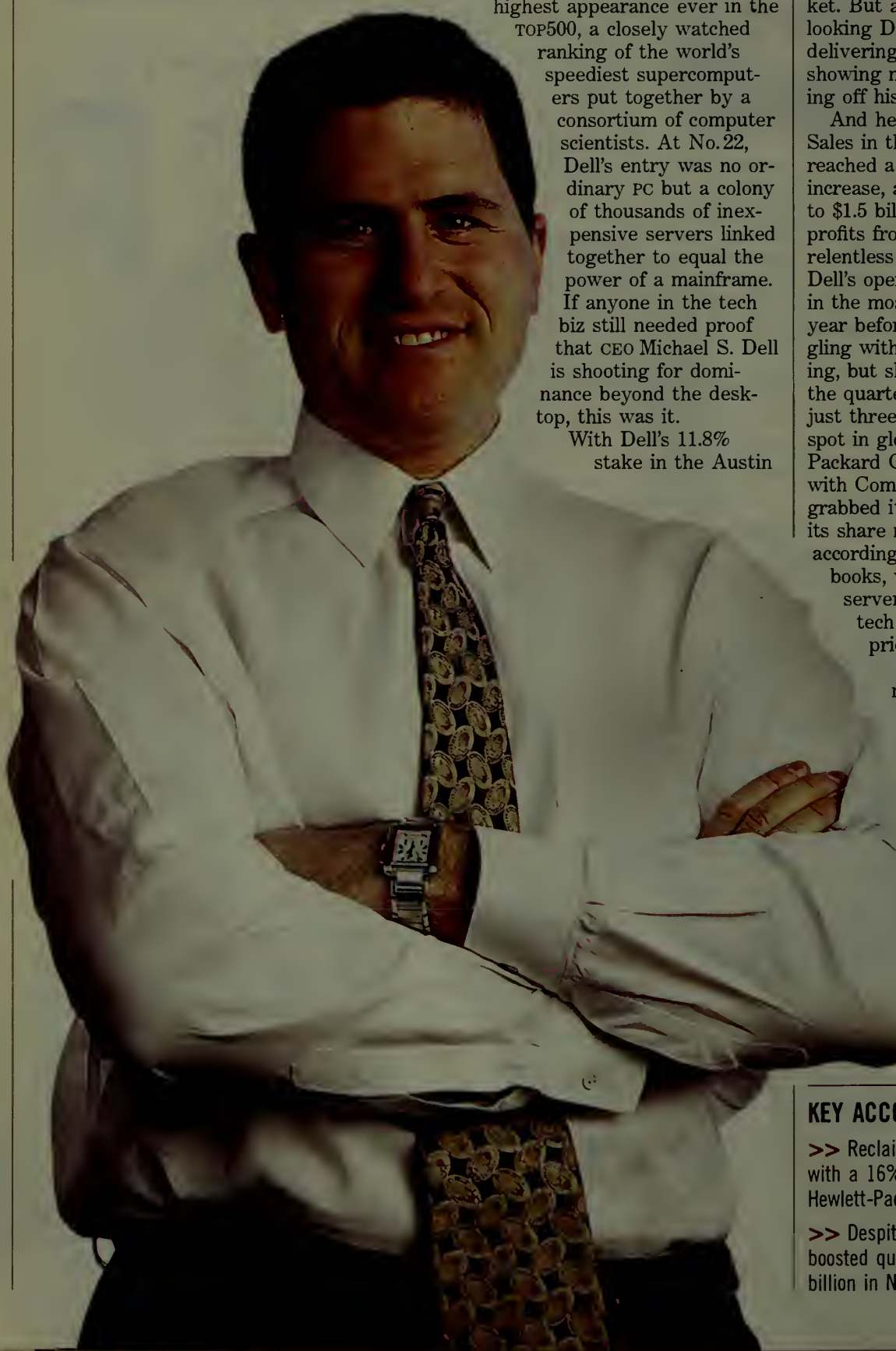
And he's doing it all at a nice profit. Sales in the first nine months of 2002 reached a record \$25.7 billion, an 11% increase, and net income jumped 15% to \$1.5 billion. PC sales are draining profits from competitors, but thanks to relentless efficiency improvements, Dell's operating margin grew to 8.3% in the most recent quarter from 7.3% year before. The industry is still struggling with weak-as-water tech spending, but shipments at Dell grew 28% the quarter that ended Nov. 1. And just three months after losing the top spot in global PC sales to Hewlett-Packard Co. (as a result of HP's merger with Compaq Computer Corp.), Dell grabbed it back in October, boosting its share more than a point, to 16%, according to IDC. Dell is No. 1 in notebooks, workstations, and Intel-based servers, too. In a year when many tech stocks were walloped, Dell price has held steady.

Wondering about Dell's next move? Take a look at HP's strongholds. Dell is attacking the tech icon's cushy market share in storage gear and networking equipment and just rolled out a \$199 handheld that undercut HP's popular iPAQ by half. In 2003, Dell will strike right at HP's heart with a line of low-priced printers and cartridges. Now that's a supercharged strategy. □

KEY ACCOMPLISHMENTS

>> Reclaimed top rank in global PC sales with a 16% market share, besting rival Hewlett-Packard's 15.5%

>> Despite lackluster tech spending, boosted quarterly revenue to a record \$9.1 billion in November





STEFAN PERSSON

Hennes & Mauritz

What does a silver-haired, 55-year-old Swede with Savile Row taste know about female fashion? In the case of Stefan Persson, chairman of Hennes & Mauritz, a lot. Persson has turned H&M into Europe's largest clothing retailer, with more than 840 stores in 14 countries. When H&M opened its first store in Manhattan, hordes of shoppers queued on the sidewalk eager to stock up on the retailer's inexpensive trendy wares. "As a newcomer to the U.S., we were pleasantly surprised by the positive reaction," says Persson

with characteristic reserve.

Persson's strategy is to keep the styles fresh and the inventory moving. To hold down costs, he designs merchandise in-house and manufactures it in low-cost countries such as Bangladesh, China, and Turkey. And H&M has one of the fastest turnaround times in the industry, moving merchandise from drawing board to store shelves in as little as three weeks.

While other retailers struggle, H&M is on target to post pretax profits of \$833 million in 2002, up 34%, on sales of \$5.8 billion, according to Goldman, Sachs & Co. Given Sweden's tiny population, Persson had little choice but to expand outside its borders. As long as demand for cheap chic fashion keeps growing, H&M's red logo is apt to crop up around the world. □

KEY ACCOMPLISHMENTS

>> Opened 46 new stores in 2002, 15 in the U.S. alone

>> Expected to post 34% increase in 2002 profits

ROBERT TILLMAN

Lowe's

For years, Home Depot Inc. has been a Goliath of retailing, driving dozens of rival hardware chains out of business. But Home Depot may finally have met its David in the person of Robert Tillman, 59, head of the fast-growing Lowe's Cos. In his six years as CEO, Tillman has transformed the \$22 billion Wilkesboro (N.C.)-based chain. Lowe's shares have climbed more than 90% over the past two years, while Home Depot's are down 40%.

Analysts credit Tillman, a college dropout who joined Lowe's in 1963 and rose up as a store man-

ager. His blueprint for success? While Home Depot has focused on pros and male customers, Tillman seized on research showing that women initiate 80% of home projects. He redesigned Lowe's stores to give them a brighter appearance, began stocking more appliances, and has focused on higher-margin goods—everything from Laura Ashley paints to high-end bathroom fixtures.

And like another rural retailer, Wal-Mart Stores Inc., Lowe's has one of the industry's best inventory systems. As a result, profits are on track to rise 37% in the fiscal year ending in January, vs. 21% for Home Depot. That's some slingshot. □

KEY ACCOMPLISHMENTS

>> Lowe's stock is up 83% in two years, compared with a 41% decline for rival Home Depot

>> In head-to-head competition, Lowe's is stealing market share from Home Depot



MANAGERS TO WATCH

Show me the money

This could be a make-or-break year for **CARLETON S. FIORINA**, the 48-year-old CEO of Hewlett-Packard Co. With cost-cutting from the Compaq Computer Corp. integration finally reaching HP's bottom line, Wall Street is looking for signs that the combined company—and Fiorina's management team—can bring in new business. Fiorina insists they can, claiming HP's money-losing PC and enterprise systems businesses will be profitable in 2003, even if the long info-tech spending drought continues.



Legacy on the line at UAL



Three months into his job as UAL Corp.'s chairman and CEO, **GLENN F. TILTON**, 54, inscribed his name in the history books by putting the airline into bankruptcy. After a federal bailout was rejected, he had little choice. Now, Tilton's legacy rests on whether the former Texaco Inc. CEO can rescue the world's No. 2 carrier. The clock is ticking. Without big pay cuts from labor by mid-February, liquidation is all but certain. And if a terrorist attack or war with Iraq were to further depress air travel, the airline may not last even that long.

Tough road ahead at Tenet

JEFFREY C. BARBAKOW, chairman and CEO of Tenet Healthcare Corp., is starting 2003 with his company under a cloud. Tenet faces several investigations, including one by a federal agency for aggressive Medicare billing techniques. It also faces multiple lawsuits from shareholders, who have watched Tenet's stock drop more than 60% since October. Barbakow, 58, needs to get the company's legal troubles behind him and figure out how to keep profits flowing using more conservative billing practices.



THE **BEST** MANAGERS

KEN KUTARAGI

Sony Computer Entertainment

Ken Kutaragi is revered by video-game enthusiasts the world over as the father of the PlayStation. Yet, ironically, the highly driven Kutaragi has only recently won the respect of his peers at Sony headquarters. "They used to say I was merely lucky with the PlayStation," says the 52-year-old president and CEO of Sony Computer Entertainment Inc., the consumer-electronics giant's game unit. "But now they're realizing it was no easy thing to create an \$8 billion business from scratch."

In fact, it's Sony that has lucked out. Kutaragi's company kicked in \$1 billion in earnings in the business year that ended in March—60% of Sony's operating profits. PlayStation 2 could well break all kinds of records. In the first 30 months since PS2 was introduced, Sony sold 40 million units, more than twice as many as the original PlayStation in the same time frame. The first one still ranks as

the best-selling console on the pla

Kutaragi is a rare breed in Cor rate Japan: an engineer with vision and marketing smarts. But success didn't come easily. As a young researcher in the 1970s, he developed liquid-crystal-display projector tha Sony refused to approve, thus mis out on a new market. He also wor on a disk-storage camera that was years ahead of its time. Even after PlayStation launched in 1994, says taragi, "many in Sony looked down us because we were in games."

Not anymore. Kutaragi's PlaySta business model—using low-margin hardware to sell high-margin software—is being emulated throughout the company. Now he's overseeing development of a supermicroprocessor power a console to handle all kinds entertainment flowing into homes o broadband networks. If he creates a other megahit, he could be running entire Sony show someday. □

KEY ACCOMPLISHMENTS

>> Created cash cow out of video-game business, which contributed 60% of Sony operating profits in the year ended in Ma

>> Developing new chip to power network machine capable of sending interactive games, movies, and music over broadband networks

LES MOONVES

CBS

Just how competitive is CBS CEO and President Leslie Moonves? Locked in a tight race with NBC for the November sweeps, he overhauled the lineup on the last day of the month, inserting special episodes of two of his most popular shows, *Survivor* and *CSI*. In the end, he just edged past his rival. "Anyone who's ever succeeded in one of these network jobs is competitive," says Moonves. "If you're not, you should be in another job."

The 53-year-old Moonves, a onetime actor, certainly seems to be in the right place. At the midway point of the TV season, CBS is averaging 12.9





JOHN THOMPSON

Symantec

John W. Thompson doesn't like to follow the crowd. When he was a young salesperson at button-down suits and stylishly big hair. "I was determined I wasn't going to be a slave to IBM fashion," he says.

Thirty years later, Thompson, now the 53-year-old CEO of security software company Symantec Corp., is more Brooks Brothers than *Saturday Night Fever*. But he's still his own man. While his competitors have hunkered down during the tech collapse, Thompson has been buying up compa-

nies, including five in 2002 alone, all focused on corporate computer security.

So far, it looks like Thompson is on to something. In Symantec's most recent quarter, ended Sept. 30, the company earned \$52 million, quadruple the year before, on revenues of \$325 million, up 34%. "I firmly believe our strategy is beginning to play out," says Thompson.

Here's the curious part, though: Symantec's revenue burst hasn't come from Thompson's acquisitions. It's due mostly to the company's original business—antivirus software. At a time when consumers have become more interested in protecting their home computers, Thompson has improved retail-sales channels to make it easier to find his products. Still, when corporations start spending on software again, his new businesses had better pay off. □

KEY ACCOMPLISHMENTS

>> Thompson improved Symantec's retail-sales channels to better exploit the increasing demand for personal computer antivirus software

>> While other companies retrenched, Thompson has bought five startups that focus on corporate computer security



million viewers a night, top among the networks and the only one of the four largest to have increased its audience from last year. It has this year's two most popular new shows: *Still Standing* and *CSI: Miami*. That's a huge change from 1995, when Moonves

joined CBS from Warner Bros. TV, where as president he had greenlighted such hits as *Friends* and *ER*. Then decried as the "Depends network," CBS was a distant third in the ratings.

Moonves, who sits on the board of parent company Viacom Inc., still takes meetings and picks casts. It was he who persuaded actress Jami Gertz, an old friend, to take the lead role in *Still Standing*. But not everything in Moonves' world is running smoothly: CBS's sister network UPN, which he has overseen for the past year, continues to lose viewers. To lure viewers, Moonves will soon air *Supermodel*, a contest show hosted by Tyra Banks. Stay tuned. □

KEY ACCOMPLISHMENTS

>> Developed three of the top four new shows—*CSI: Miami*, *Still Standing*, and *Without a Trace*

>> Helped CBS become only major network to increase viewership this year, by 1%, to 12.9 million

MANAGERS TO WATCH

Magic Kingdom no more

Years of anemic stock prices didn't end his reign as emperor of the Magic Kingdom. But look for two dissatisfied directors to ratchet up pressure on Walt Disney Co. Chairman and CEO, **MICHAEL D. EISNER**, 60, to improve the company in 2003—or be dethroned. Adding to Eisner's woes: an SEC review of Disney's cozy board and an animated unit staggering after its big-budget *Treasure Planet* bombed. Eisner's challenge is to build on improvements at ABC Inc., keep theme park attendance up, and convince Wall Street that Disney is worth more than \$16 a share.



Sun will come up tomorrow?



Once again, Sun Microsystems Inc. CEO **SCOTT G. McNEALY** has to prove his naysayers wrong. In two years, sales for the computer maker have dropped 32%, to \$12.5 billion,

and its shares have crashed from a high of 64 to 2.96 on Dec. 23. Critics say McNealy, 48, isn't doing enough to control costs. But he says Sun must spend heavily on research to restart revenue growth, claiming the company's future lies in a combination of top-of-the-line computers and cutting-edge network software. In 2003, we'll see who's right.

Promises, promises

Despite three years of shaking the Coke machine, Coca-Cola Co. Chairman and CEO **DOUGLAS N. DAFT** still isn't consistently making good on his promises of 8% to 10%

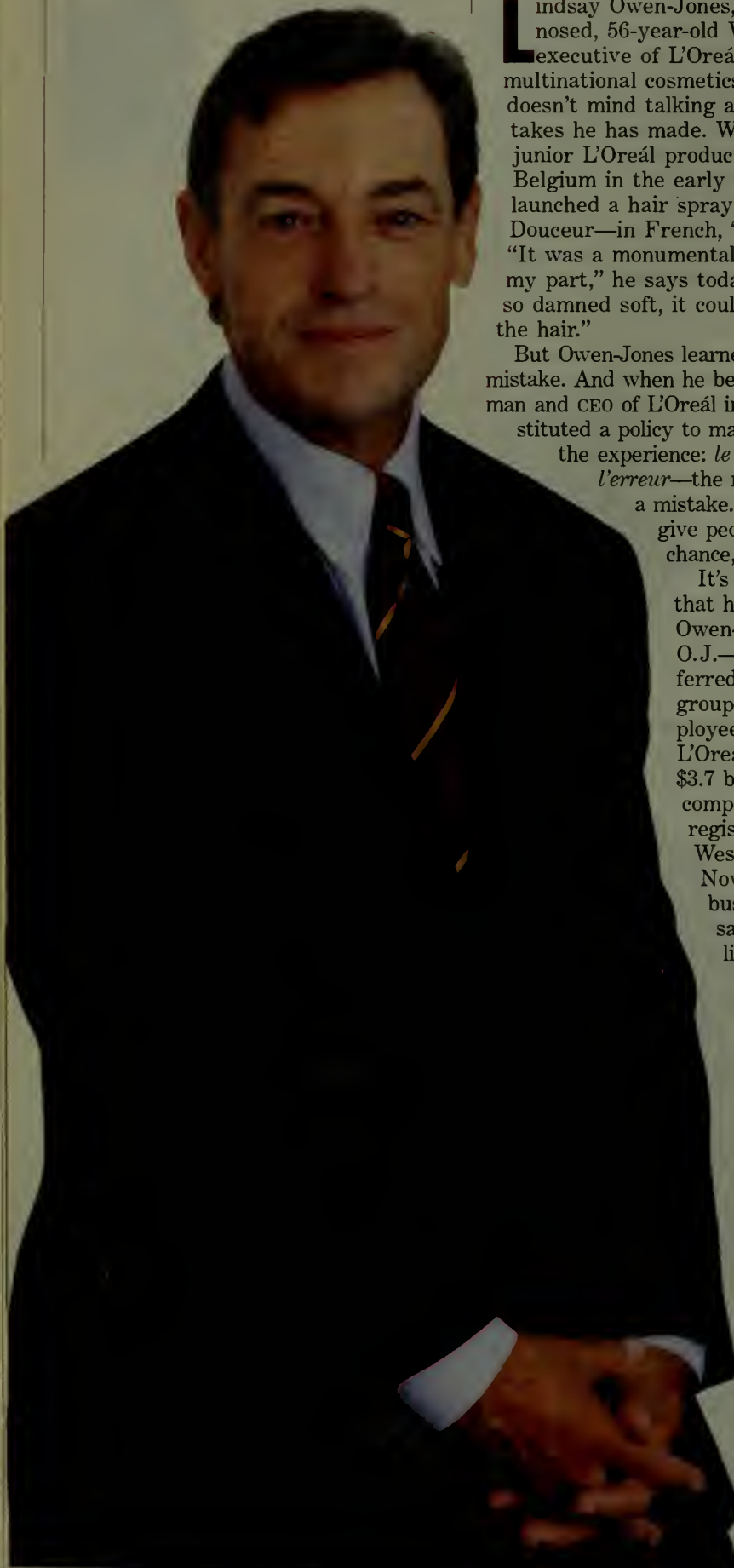


growth in operating income. The main culprits include weak international markets, uninspired advertising, and heightened competition from a revived PepsiCo Inc. With Coke's stock still stuck at roughly half its 1998 high, Daft, 59, needs to start producing higher profits before the company's star-studded board loses patience.

THE BEST MANAGERS

LINDSAY OWEN-JONES

L'Oréal



Lindsay Owen-Jones, the hard-nosed, 56-year-old Welsh chief executive of L'Oréal, France's multinational cosmetics powerhouse, doesn't mind talking about the mistakes he has made. When he was a junior L'Oréal product manager in Belgium in the early 1970s, he launched a hair spray called *Toute Douceur*—in French, “all softness.” “It was a monumental error on my part,” he says today. “It was so damned soft, it couldn't hold the hair.”

But Owen-Jones learned from his mistake. And when he became chairman and CEO of L'Oréal in 1988, he instituted a policy to make good on the experience: *le droit à l'erreur*—the right to make a mistake. “You have to give people a second chance,” he says.

It's a philosophy that has paid off for Owen-Jones. When O.J.—as he's referred to by the group's 50,000 employees—took over, L'Oréal's sales were \$3.7 billion, and the company barely registered outside Western Europe. Now it's a global business with sales of \$14 billion and a sta-

ble of more than a dozen powerful brands like Maybelline, Lancôme, and Vichy. And in one of the most economically challenging years of his tenure, Owen-Jones is coming up with some of his best numbers yet: In the first half of 2002, L'Oréal's sales increased by 8% and net profits rose 30%.

His secret? Owen-Jones doesn't mind being called old-fashioned. He doesn't get sidetracked by gimmicky new businesses to pump up the share price in the short term. He's proud that L'Oréal manufactures most of its own products, unlike many other consumer and luxury-goods companies. And because he's focused on his core cosmetics business, his big strategic moves have been remarkably astute. He picked up the somewhat downmarket Maybelline brand in 1996 for what seemed like a high price—\$760 million. But with sales up fourfold since the acquisition, Maybelline is now the No. 1 makeup brand in the world. Its Watershine Diamond lipstick, for example, is the top seller in China.

It is on emerging consumer markets like China that Owen-Jones is pinning hopes for L'Oréal's future growth. Sales to Russia and China, where an expanding middle class is starting to spend, are already growing over 60% a year. He is also targeting sub-Saharan Africa, and he recently set up a research and development center in Chicago to study African hair types.

Owen-Jones is sharply critical of some of the corporate highfliers, such as Vivendi Universal under ousted CEO Jean-Marie Messier, that were held up as examples of management excellence in the U.S. and Europe throughout much of the 1990s: “So much of the craziness of this past period has been about looking for magical shortcuts. If you sold cars, say, you had to find a way to get out of the business, or if you were a water utility, you had to get into the media business.” Touché. □

KEY ACCOMPLISHMENTS

>> L'Oréal's first-half net profits are up 29.4%—the 18th straight year of double-digit profit growth

>> Sales to Russia and China this year are up more than 60%, while Maybelline has the best-selling lipstick in China



JOE NEUBAUER

Aramark

Just three months after September 11, 2001, Joseph Neubauer proudly stood on a platform overlooking the New York Stock Exchange for the celebratory ringing of the opening bell. On that morning, the immigrant son of Holocaust survivors took public the managed-services giant Aramark Corp., which he had led as chief executive for 18 years.

His timing might have been better. Declining investor confidence, a slug-

gish economy, and threats of a baseball strike—stadium concessions are one of Aramark's biggest markets—made it a poor time to go public. Despite all that, Neubauer, 61, led Aramark to a record year. Net income rose 35%, to \$239.1 million, for the year ending Sept. 27, 2002, while sales increased 13%, to \$8.8 billion.

That performance has kept Aramark shares trading near their \$23 offering price. But Neubauer hasn't

sold a share of his 17.6% stake. He plans to give as many as 1 million shares to charity. So he'll have even more reason to convince investors that Aramark is undervalued. □

KEY ACCOMPLISHMENTS

>> Led Aramark to record profit and revenues in each quarter of its first year as a public company

>> Successfully integrated company's largest acquisition, a \$1 billion (sales) facility-services business, bought from ServiceMaster in 2001

symbolic, very physical changes so people understand we are in the business of leading change," says Lafley.

The remodeling says a lot about how Lafley, 55, turned around the consumer-goods giant after taking the top job in 2000. He has refocused P&G on its big brands, including Tide, Pampers, and Crest. More important, he's opening up the insular company. He acquired the hit product, Crest Spinbrush electric toothbrush. The result: P&G is expected to post an 11% increase in operating profits this fiscal year on a 6% rise in sales, to \$34 billion. Future gains may be harder since there aren't many one-time cost savings left. But Lafley believes that there's still tremendous growth in the core brands. He has made one thing clear: P&G's stodgy corporate culture is gone for good. □

KEY ACCOMPLISHMENTS

>> Revenues this fiscal year are expected to rise 6%, the biggest gain since 1996

>> Crest regained its perch as No. 1 oral-care brand in the U.S., which it lost to Colgate in 1998



A. G. LAFLEY

Procter & Gamble

From the outside, Procter & Gamble Co.'s Cincinnati headquarters looks unchanged. But on the top floor—the haunt of P&G's top brass for 50 years—there's a major overhaul under way. Wood paneling and an executive cafeteria are making way for a training center that will bring employees from around the world within earshot of CEO Alan G. Lafley. "I have made a lot of

MANAGERS TO WATCH

More pizzazz, please

After a year at the helm, Ford Motor Co. Chairman and CEO **WILLIAM C. FORD JR.**'s turnaround is still largely theoretical. Delayed new-vehicle launches and quality problems that led to embarrassing recalls continue to dog the No. 2 auto maker. To succeed in 2003, Ford, 45, will need to continue making headway on cost-cutting and improve market share by winning back consumers turned off by Ford's unexciting lineup. And he must do so amid an industrywide slump in sales and stiff price competition from rival General Motors Corp.



Telecom tiger



One of Asia's richest men, Hong Kong's **LI KA-SHING**, will face one of his biggest financial challenges ever this year with the launch of Hutchison Whampoa's high-speed mobile data service in Britain and Italy. Li, the company's 74-year-old chairman, is betting \$16 billion that he can sell the pricey third-generation or "3G" system to 2 million tech-jaded consumers by yearend. His timing may be right: With the telecom industry in the dumps, at least he won't have much competition for the new market.

Applause for Act One

Yahoo! Inc. Chairman and CEO **TERRY S. SEMEL**, 59, has completed Act One—boosting the Net portal's revenue by 25% in 2002—by adding new businesses via acquisitions and partnerships. But jump-starting growth to keep sales from leveling off—no easy task in an anemic advertising market—will require another command performance in Act Two. His strategy: transforming Yahoo into a high-speed Web portal, then selling new customers a range of broadband offerings, from entertainment downloads to personal ads.





RICH BARTON

Expedia

Give Richard N. Barton credit for gumption. In 2002, the 35-year-old stood up to none other than media mogul Barry Diller, dodging maneuvers by Diller's USA Interactive to acquire the 38% of the online travel agent that it didn't already own.

In July, an independent board committee dominated by Barton allies told Diller he'd better bring a much bigger wad of money, calculating correctly that he would back off.

It was that sort of year for the youthful, clean-cut former Microsoftie. Amid the dot-com rubble, he lifted Expedia to new heights, jetting past rival Travelocity to land the top spot among Web travel agents in billings. He even stared down the launch of Orbitz—the site started by the airlines to reclaim their booking business—which is still a distant third in market share.

Ultimately, Expedia could be as successful as dot-com darling Ebay Inc. Spun out of Microsoft Corp. in 1999, Expedia has blossomed into a digital powerhouse in its own right. In 2002, Expedia sold roughly \$5 billion worth of tickets, hotel bookings, and other travel services. Analysts say its 2002 revenue—that is, Expedia's slice of the ticket price—should nearly double, to \$580 million, producing a profit of \$60 million. That compares with a \$21.5 million loss the previous year. What's more, with online travel still in its infancy, Expedia is expected to post healthy growth for the next few years.

Barton's key strategy revolves around the hotel business. Instead of selling rooms on commission, Expedia buys them at a discount, using the bargaining

power that comes with its size. The rooms are resold, often packaged with fares, and Expedia keeps the spread. "We made a big bet that people cared more about trips than tickets," Barton says. That helped insulate Expedia from the post-September 11 dips in air travel that have pinched rivals. Investors have noticed: At a recent price of \$67, the stock has almost climbed 80% since the beginning of 2002.

Barton's next battle? Business travel. Barton is targeting American Express' travel business, which at \$1.5 billion in revenue is nearly three times Expedia's size but exists largely to drive business to Amex credit cards. So far, Barton has proved adept at using technology to squeeze costs out of the travel process. That's why some travel consultants believe Expedia may be able to slash 75% of corporate travel reservations overhead. Count on Barton to take up the fight. □

KEY ACCOMPLISHMENTS

>> Flew past Travelocity to become the No. 1 online travel agency

>> Entered the corporate travel market, putting price pressure on stalwarts such as American Express and Carlson Wagonlit



DICK KOVACEVICH

Wells Fargo

While many of his peers have been embroiled in one scandal or another, Wells Fargo & Co. CEO Richard M. Kovacevich, 59, has kept his bank safely out of the fray. Forget



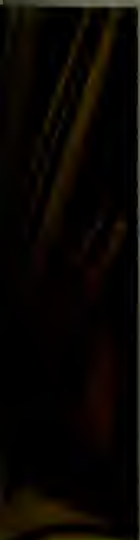
JIM SINEGAL
Costco

James D. Sinegal didn't grow up dreaming of discount merchandising. He figured he would become a doctor. He wound up in retailing instead, but wields a pretty mean scalpel. Sinegal founded Costco Wholesale Club in 1983 and has been cutting costs ever since. The Issaquah (Wash.)-based chain eliminates many frills of conventional retailing, such as salespeople (except those in electronics), fancy buildings, distribution, and high inventory. That allows him to impose a

strict 15% markup limit on all items and offer bargains like a Compaq personal digital assistant for \$319.19, vs. \$449.99 at Circuit City Stores Inc. Despite a troubled economy, net income rose 15%, to \$700 million, in the year ended in August on sales of \$38 billion, up 11%. Sales in stores open at least a year grew 6%. Good, but not good enough for investors, who have pushed Costco's stock down about 38% for the year, to \$28 a share. Sinegal plans to pull back some on store growth this year. But he's not conceding anything to rivals, especially Wal-Mart Stores Inc. Sinegal was the first to introduce fresh food to the warehouse business. He opened the first pharmacies, eye-care businesses, gas stations, and now home furnishings. Sinegal will need that creativity to keep Costco ahead of some very big and hungry competition. □

KEY ACCOMPLISHMENTS

- >> Captured 50% share of the \$70 billion U.S. wholesale club market
- >> Boosted sales so that warehouses generate an average \$101 million annual volume, nearly double that of its nearest rival



risky telecom loans or big-league investment banking business. Kovacevich doesn't stray beyond the basics: retail and wholesale banking and mortgage lending. Kovacevich, who became head of San-Francisco-based Wells Fargo after it merged in 1998 with Norwest Corp., has concentrated on selling such unglamorous services as payroll management for small businesses and checking accounts and credit cards for consumers. Mortgage refinancings have also been a pot of gold. The bank racked up \$221 billion worth of new mortgages during the first nine months of 2002, blowing past the \$202 billion it lent in all of 2001. That helped Wells Fargo, the fifth-largest bank in the U.S. in assets, post a 19.69% return on equity in the first three quarters, beating other big

banks. Net income climbed 11% to \$4.24 billion. Kovacevich's core strategy is to focus on selling as many products as he can to each customer. He figures that's cheaper than trying to bring in new clients who might not be as loyal. So far, Wells Fargo customers sign up for an average of four products each, double the industry average. And Kovacevich is willing to sacrifice a little profit margin. "The more business you do with us, the better deals you get," says Kovacevich, a former pitcher who had an offer from the New York Yankees out of high school (he chose an athletic scholarship to Stanford University instead). Now he's trying for eight products per customer. If he succeeds, he'll be in a league of his own. □

KEY ACCOMPLISHMENTS

- >> Sells an average of four products to each customer, double the industry average
- >> Net income expected to grow an estimated 22%, to about \$5.5 billion in 2002

Going after DirecTV—again

Proving patience is a virtue, News Corp. Chairman and Chief Executive **RUPERT MURDOCH** is finally ready to make a bid for the DirecTV satellite service from General Motors Corp. A year after dropping a bid, he got a second chance when regulators rejected DirecTV's merger with EchoStar Communications Corp. Now, corporate coffers bulging, Murdoch, 71, wants GM's 30% stake in DirecTV to complete his plan to beam Fox Entertainment shows worldwide. Murdoch has never been one to back down.



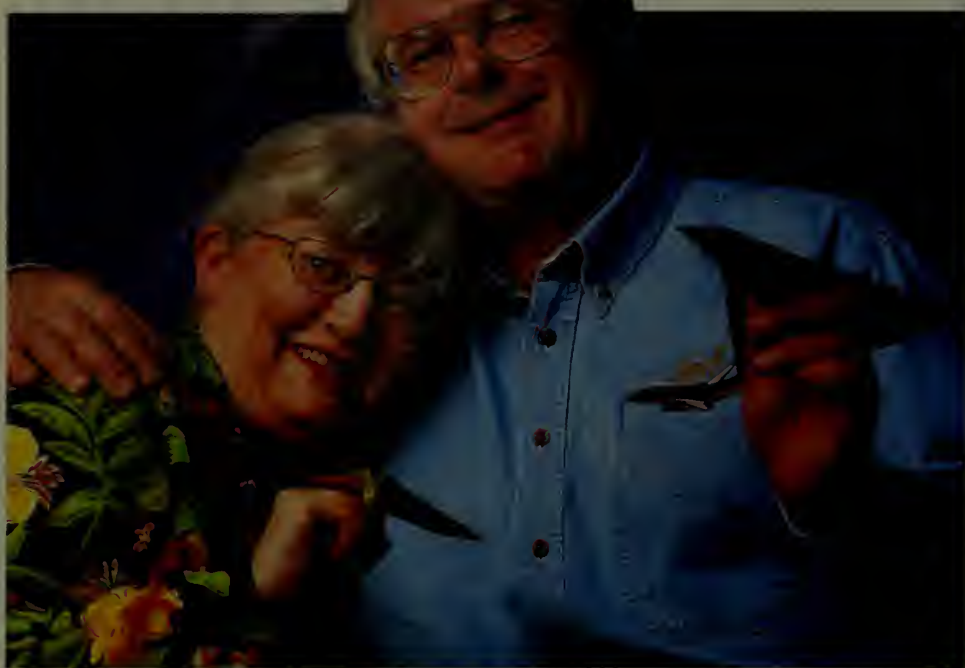
At SBC, the race is on

As chairman and CEO of SBC Communications Inc., **EDWARD E. WHITACRE**, 61, runs the nation's No. 2 local-phone company. He bagged California but still lags behind other Bells in the race to enter long distance. Worse, he faces a tough battle with regulators, who have given rivals heavy discounts to compete in SBC's backyard, especially Michigan and Illinois. At the current pace, SBC stands to lose an estimated 7 million customers in 2003—a blow Whitacre says could bring "financial ruin."

Ready, set...deal

After three years, the turnaround engineered by Chairman and CEO **JAMES DIMON** at Bank One Corp. is all but complete. He has slashed payroll, boosted reserves, and whipped the credit-card division into shape. Now comes the fun part. Dimon, 46, may deal his way into greatness in 2003. Surely, heading the nation's sixth-biggest bank isn't enough for this wheeler-dealer Citigroup veteran, especially with Bank One's earnings growth now humming along at 17% and acquisition target prices down.





Making the Best of A Bad Situation

A little ingenuity went a long way—even in battered industries

COLLEEN BARRETT & JAMES PARKER Southwest

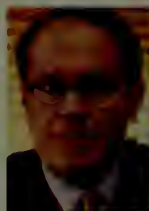
James F. Parker (CEO) and Colleen C. Barrett (president), both Southwest Airlines Co. veterans, have kept their airline aloft in troubled times by sticking to the company's well-honed formula of low fares and low costs. With Chairman and founder Herbert D. Kelleher still managing strategy and government relations, they have managed to turn a profit and protect jobs, while the industry lost an estimated \$9 billion in 2002 and laid off thousands of workers. Certainly, the industry's woes have clipped Southwest's wings a bit. The company will grow only about 5% in 2002, less than its 8% target. But with rivals rapidly downsizing—in and out of bankruptcy court—and desperately trying to emulate Southwest's cost structure, Kelleher's successors are proving themselves worthy pilots of the low-fare leader.

RICK WAGONER General Motors

G. Richard Wagoner inherited some tough problems when he took over the top spot at General Motors Corp. in 2000. GM faces big pension liabilities, a weakening economy, and a ruinous price war. Still, Wagoner, 49, has kept sales up and 2002 earnings should near \$4 billion. He did it by bringing in new talent and launching successful models such as the Chevrolet TrailBlazer and Hummer H2.



JORMA OLLILA Nokia



Jorma Ollila, the 52-year-old CEO of Nokia Corp., placed some bold bets in 2002. He rolled out 30 new products, including a popular camera-phone, and to part a move into phones by

Microsoft Corp., he licensed Nokia's prize software to other phonemakers. The bets paid off: Although sales for 2002 are expected to fall 3%, profits should top an estimated \$3.4 billion.

TIMOTHY DONAHUE Nextel Communications

While other telecoms foundered, Nextel Communications posted a profit for the first time this year: \$325 million in the second quarter. CEO Timothy M. Donahue, 52, was helped by technology no one else has yet: DirectConnect, which provides walkie-talkie-like wireless connections. Rivals may pile in next year, but Donahue has already grabbed a big head start.



WAS BUFFETT RIGHT?

Throughout the New Economy boom of the 1990s, superinvestor Warren E. Buffett was called a dinosaur and a has-been for refusing to buy tech stocks. Instead, he held big stakes in com-

panies such as American Express, Coca-Cola, and Gillette. He even acquired a furniture chain in 1999 while everyone else was investing in dot-coms. But so far, Buffett has come out golden. Since

the beginning of 1995, tech stocks are up 127%. By comparison, shares of Berkshire Hathaway Inc.—which serves as Buffett's investment vehicle and accounts for the bulk of his wealth—have risen 250%. No wonder investors revere the Oracle of Omaha.



A building is no longer just a place you do business. It's a silent partner.

The best "partners" make everyone around them perform better. With building technology solutions from Siemens, your

building becomes more responsible. And can even become a manageable asset. We create and integrate core infrastructure systems like HVAC, lighting, energy management, fire safety and security systems, so your working environment is safer and more comfortable. Not to mention more efficient. Basically, we think your building should be working for you. Not the other way around. When you have 425,000 minds working together all around the globe, including 75,000 right here in the U.S., innovative solutions emerge. And that's what it takes to change the world.

SIEMENS

Global network of innovation

energy & power • information & communication • medical systems & healthcare
financial services • lighting • transportation • industry & automation • **building technologies**

THE **BEST** MANAGERS

Repeat Performers

These bosses keep the good times rolling, even when times are tough

STEVE BALLMER Microsoft

A year ago, Steven A. Ballmer was still getting used to his new job as Microsoft Corp.'s CEO. These days, he's hell-bent on reshaping the software giant. Ballmer, 46, has overhauled the management process, tightening the company's loosely woven structure into something better suited to a more mature Microsoft.

And he has pushed more authority down to key senior managers.

"We're investing a lot of time and effort in thinking about how to do an even better job developing managers and leaders," says Ballmer. As most rivals sputtered, Microsoft's sales grew 12% in fiscal 2002, to \$28.37 billion, and profits climbed 7%, to \$7.83 billion. But his masterstroke was winning a federal judge's approval for the settlement of antitrust issues Microsoft negotiated with the Justice Dept.

REUBEN MARK Colgate-Palmolive

Increased competition and troubles in big markets—just another year for longtime CEO Reuben Mark. He continued to focus on incremental improvements and cost-cutting. Mark, 63, reported 6% unit volume growth in the third quarter and said 2003 looks good, too.



HANK GREENBERG American International Group



Maurice "Hank" Greenberg is 77, but he continues to deploy his formidable energies to good effect. AIG put massive World Trade Center losses behind it—and reported a 61% gain in net income, to \$5.6 billion, for the first nine months of 2002.

MEG WHITMAN eBay

By expanding internationally and making bold acquisitions, such as the \$1.5 billion purchase of payment processor PayPal Inc., CEO Margaret C. Whitman, 46, kept eBay rolling past all the other dot-com casualties this year.



FUJIO MITARAI Canon

Thanks to Fujio Mitarai, Canon's sharpshooter of a chief executive, the company will report record profits again in 2002. That's despite the recession in Japan. The secret to his success: Mitarai, 67, is constantly whittling down costs while pushing his engineers to develop better products.

LEE SCOTT Wal-Mart

In a moribund economy, discount king Wal-Mart Stores Inc. continued to grab sales and market share. Chief executive H. Lee Scott Jr., 53, will keep the pressure on rivals in 2003 by adding some 465 new stores worldwide and sticking to Wal-Mart's "everyday low price" philosophy.





You can't always control
how they use office supplies,
but you can control
overall costs.

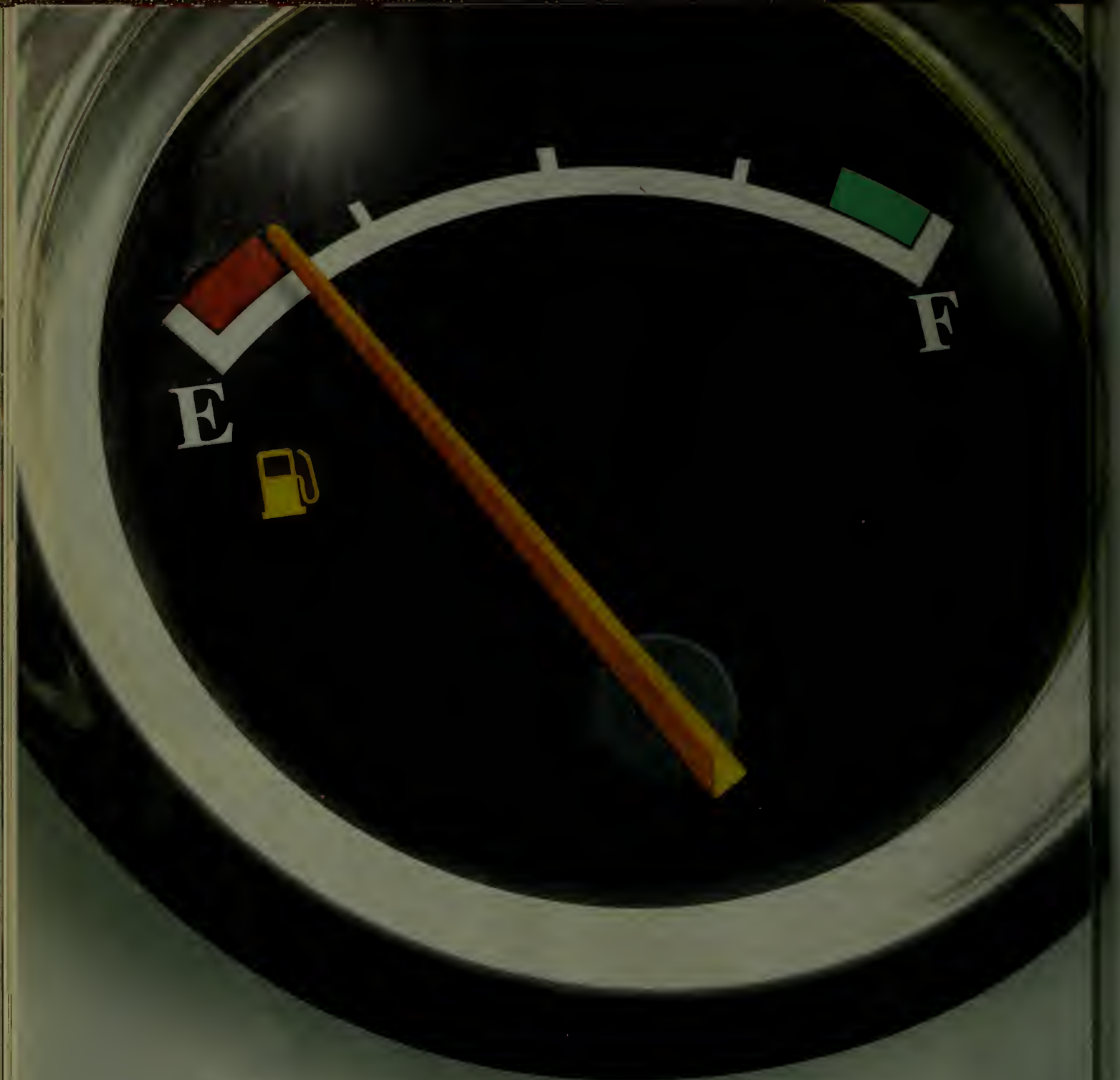


Here's a wake-up call: While office products are typically 12% of supply budgets, they can account for 70% of transactions. That takes a lot of your associates' time. And up to half of their purchases may cost 15% more than you expected. Boise Office Solutions can help. Our unique Customer Insight ReportsSM show you who's ordering what, when and how. So you can really control expenditures. And our easy, personalized ordering system saves valuable time. For eye-opening proof on how we can save you money, call **1-888-BOISE-88**. **Boise. It Couldn't be Easier.[®]**

BOISE[®]

Office Solutions

OFFICE PRODUCTS • TECHNOLOGY • FURNITURE • OFFICE PAPERS



Safety Information: Adverse events possibly, probably or definitely related to use of AndroGel® in the controlled trial (n=154) across all dose levels reported in at least 2% of patients included lab test abnormal 5.8%, acne 5.2%, application site reaction 5.2%, prostate disorder 4.5%, headache 2.6%, and hypertension 2.6%.

• Adverse events possibly, probably or definitely related to use of AndroGel in a 1-year follow up (n=106) across all dose levels reported in at least 2% of patients included application site reaction 9.4%, prostate disorder 8.5%, acne 5.7%, and lab test abnormal 4.7%.



A Solvay Pharmaceuticals, Inc. Company

©2002, Unimed Pharmaceuticals, Inc.

• Androgens are contraindicated in men with carcinoma of the breast, or known or suspected carcinoma of the prostate. Geriatric patients treated with androgens may be at an increased risk for the development of prostatic hyperplasia and prostatic carcinoma.

• To minimize the potential transfer of testosterone to another person, patients should wash their hands immediately with soap and water after application of AndroGel. They should cover the application site(s) with clothing after the gel has dried.

Please see brief summary of prescribing information on

Fatigued?

Depressed mood?

Low sex drive?

Could be your testosterone is running on empty.

An estimated 4-5 million American men have a medical condition called hypogonadism, or low testosterone.¹ These low testosterone levels can cause a number of different symptoms such as low sex drive, fatigue, depression, and even loss of height or strength. Your doctor can check your testosterone level with a simple blood test.



Fortunately you can replace testosterone with AndroGel[®] which delivers natural testosterone in a gel that you simply rub into your skin – no patches or injections. As it's absorbed through your skin, AndroGel treats hypogonadism by restoring your testosterone to its normal range.

1. www.fda.gov/fdac/departs/196_upd.html, accessed May 17, 2002

Ask your doctor if AndroGel is right for you.

For more information please visit:

www.androgel.com or call **1-800-241-1643**



Testosterone restored



AndroGel®

(testosterone gel) 1% CII

INDICATIONS AND USAGE

AndroGel® is indicated for replacement therapy in males for conditions associated with a deficiency or absence of endogenous testosterone:

1. Primary hypogonadism (congenital or acquired)—testicular failure due to cryptorchidism, bilateral torsion, orchitis, vanishing testis syndrome, orchiectomy, Klinefelter's syndrome, chemotherapy, or toxic damage from alcohol or heavy metals. These men usually have low serum testosterone levels and gonadotropins (FSH, LH) above the normal range.
2. Hypogonadotropic hypogonadism (congenital or acquired)—idiopathic gonadotropin or luteinizing hormone-releasing hormone (LHRH) deficiency or pituitary-hypothalamic injury from tumors, trauma, or radiation. These men have low testosterone serum levels but have gonadotropins in the normal or low range.

AndroGel® has not been clinically evaluated in males under 18 years of age.

CONTRAINDICATIONS

Androgens are contraindicated in men with carcinoma of the breast or known or suspected carcinoma of the prostate.

AndroGel® is not indicated for use in women, has not been evaluated in women, and must not be used in women.

Pregnant women should avoid skin contact with AndroGel® application sites in men. Testosterone may cause fetal harm. In the event that unwashed or unclothed skin to which AndroGel® has been applied does come in direct contact with the skin of a pregnant woman, the general area of contact on the woman should be washed with soap and water as soon as possible. *In vitro* studies show that residual testosterone is removed from the skin surface by washing with soap and water.

AndroGel® should not be used in patients with known hypersensitivity to any of its ingredients, including testosterone USP that is chemically synthesized from soy.

WARNINGS

1. Prolonged use of high doses of orally active 17-alpha-alkyl androgens (e.g., methyltestosterone) has been associated with serious hepatic adverse effects (peliosis hepatis, hepatic neoplasms, cholestatic hepatitis, and jaundice). Peliosis hepatis can be a life-threatening or fatal complication. Long-term therapy with testosterone enanthate, which elevates blood levels for prolonged periods, has produced multiple hepatic adenomas. Testosterone is not known to produce these adverse effects.
2. Geriatric patients treated with androgens may be at an increased risk for the development of prostatic hyperplasia and prostatic carcinoma.
3. Geriatric patients and other patients with clinical or demographic characteristics that are recognized to be associated with an increased risk of prostate cancer should be evaluated for the presence of prostate cancer prior to initiation of testosterone replacement therapy. In men receiving testosterone replacement therapy, surveillance for prostate cancer should be consistent with current practices for eugonadal men (see PRECAUTIONS: Carcinogenesis, Mutagenesis, Impairment of Fertility and Laboratory Tests).
4. Edema with or without congestive heart failure may be a serious complication in patients with preexisting cardiac, renal, or hepatic disease. In addition to discontinuation of the drug, diuretic therapy may be required.
5. Gynecomastia frequently develops and occasionally persists in patients being treated for hypogonadism.
6. The treatment of hypogonadal men with testosterone esters may potentiate sleep apnea in some patients, especially those with risk factors such as obesity or chronic lung diseases.

PRECAUTIONS

Transfer of testosterone to another person can occur when vigorous skin-to-skin contact is made with the application site (see Clinical Studies). The following precautions are recommended to minimize potential transfer of testosterone from AndroGel®-treated skin to another person:

- Patients should wash their hands immediately with soap and water after application of AndroGel®.
- Patients should cover the application site(s) with clothing after the gel has dried (e.g., a shirt).
- In the event that unwashed or unclothed skin to which AndroGel® has been applied does come in direct contact with the skin of another person, the general area of contact on the other person should be washed with soap and water as soon as possible. *In vitro* studies show that residual testosterone is removed from the skin surface by washing with soap and water.

Changes in body hair distribution, significant increase in acne, or other signs of virilization of the female partner should be brought to the attention of a physician.

General

The physician should instruct patients to report any of the following:

- Too frequent or persistent erections of the penis.
- Any nausea, vomiting, changes in skin color, or ankle swelling.
- Breathing disturbances, including those associated with sleep.

Information for Patients

Advise patients to carefully read the information brochure that accompanies each carton of 30 AndroGel® single-use packets.

Advise patients of the following:

- AndroGel® should not be applied to the scrotum.
- AndroGel® should be applied once daily to clean, dry skin.
- After application of AndroGel®, it is currently unknown for how long showering or swimming should be delayed. For optimal absorption of testosterone, it appears reasonable to wait at least 5-6 hours after application prior to showering or swimming. Nevertheless, showering or swimming after just 1 hour should have a minimal effect on the amount of AndroGel® absorbed if done very infrequently.

Laboratory Tests

1. Hemoglobin and hematocrit levels should be checked periodically (to detect polycythemia) in patients on long-term androgen therapy.
2. Liver function, prostatic specific antigen, cholesterol, and high-density lipoprotein should be checked periodically.
3. To ensure proper dosing, serum testosterone concentrations should be measured (see DOSAGE AND ADMINISTRATION).

Drug Interactions

Oxyphenbutazone: Concurrent administration of oxyphenbutazone and androgens may result in elevated serum levels of oxyphenbutazone.

Insulin: In diabetic patients, the metabolic effects of androgens may decrease blood glucose and, therefore, insulin requirements.

Propranolol: In a published pharmacokinetic study of an injectable testosterone product, administration of testosterone cypionate led to an increased clearance of propranolol in the majority of men tested.

Corticosteroids: The concurrent administration of testosterone with ACTH or corticosteroids may enhance edema formation; thus, these drugs should be administered cautiously, particularly in patients with cardiac or hepatic disease.

Drug/Laboratory Test Interactions

Androgens may decrease levels of thyroxine-binding globulin, resulting in decreased total T4 serum levels and increased resin uptake of T3 and T4. Free thyroid hormone levels remain unchanged, however, and there is no clinical evidence of thyroid dysfunction.

Carcinogenesis, Mutagenesis, Impairment of Fertility

Animal Data: Testosterone has been tested by subcutaneous injection and implantation in mice and rats. In mice, the implant induced cervical-uterine tumors, which metastasized in some cases. There is suggestive evidence that injection of testosterone into some strains of female mice increases their susceptibility to hepatoma. Testosterone is also known to increase the number of tumors and decrease the degree of differentiation of chemically induced carcinomas of the liver in rats.

Human Data: There are rare reports of hepatocellular carcinoma in patients receiving long-term oral therapy with androgens in high doses. Withdrawal of the drugs did not lead to regression of the tumors in all cases.

Geriatric patients treated with androgens may be at an increased risk for the development of prostatic hyperplasia and prostatic carcinoma.

Geriatric patients and other patients with clinical or demographic characteristics that are recognized to be associated with an increased risk of prostate cancer should be evaluated for the presence of prostate cancer prior to initiation of testosterone replacement therapy.

In men receiving testosterone replacement therapy, surveillance for prostate cancer should be consistent with current practices for eugonadal men.

Pregnancy Category X (see Contraindications)—Teratogenic Effects: AndroGel® is not indicated for women and must not be used in women.

Nursing Mothers: AndroGel® is not indicated for women and must not be used in women.

Pediatric Use: Safety and efficacy of AndroGel® in pediatric patients have not been established.

ADVERSE REACTIONS

In a controlled clinical study, 154 patients were treated with AndroGel® for up to 6 months. Adverse events possibly, probably or definitely related to the use of AndroGel® and reported by ≥1% of the patients are listed in Table 1.

Table 1. Adverse Events Possibly, Probably or Definitely Related to Use of AndroGel® in the Controlled Clinical Trial

Adverse Event	5 g	7.5 g	10 g
Acne	1%	3%	8%
Alopecia	1%	0%	1%
Application Site Reaction	5%	3%	4%
Asthenia	0%	3%	1%
Depression	1%	0%	1%
Emotional Lability	0%	3%	3%
Gynecomastia	1%	0%	3%
Headache	4%	3%	0%
Hypertension	3%	0%	3%
Lab Test Abnormal*	6%	5%	3%
Libido Decreased	0%	3%	1%
Nervousness	0%	3%	1%
Pain Breast	1%	3%	1%
Prostate Disorder**	3%	3%	5%
Testis Disorder	3%	0%	0%

*Lab test abnormal occurred in nine patients with one or more of the following events: elevated hemoglobin or hematocrit, hyperlipidemia, elevated triglycerides, hypokalemia, decreased HDL, elevated glucose, elevated creatinine, or elevated total bilirubin.

**Prostate disorders included five patients with enlarged prostate, one patient with BPH, and one patient with elevated PSA results.

adverse events possibly related to the use of AndroGel® occurred in fewer than 1% of patients: amnesia, anxiety, discolored hair, dizziness, dry skin, hirsutism, impaired urination, paresthesia, penis disorder, peripheral edema, sweating, and vasodilation.

In this clinical trial of AndroGel®, skin reactions at the site of application were occasionally reported with AndroGel®, but none was severe enough to require treatment or discontinuation of drug.

Six (4%) patients in this trial had adverse events that led to discontinuation of AndroGel®. These events included the following: cerebral hemorrhage, convulsion (neither of which were considered related to AndroGel® administration), depression, sadness, memory loss, elevated prostate specific antigen and hypertension. No AndroGel® patients discontinued due to skin reactions.

In an uncontrolled pharmacokinetic study of 10 patients who had adverse events associated with AndroGel®, these were asthenia and depression in one patient and increased libido and hyperkinesia in the other. Among 17 patients in four clinical studies there was one instance each of acne, erythema and benign prostate adenoma associated with a 2.5% testosterone gel formulation applied dermally.

One hundred six (106) patients have received AndroGel® for up to 12 months in a long-term follow-up study for patients who completed the controlled clinical trial. The preliminary safety results from this study are consistent with those reported for the controlled clinical trial. Table 2 summarizes those adverse events possibly, probably or definitely related to the use of AndroGel® and reported by at least 1% of the total number of patients during long-term exposure to AndroGel®.

Table 2. Incidence of Adverse Events Possibly, Probably or Definitely Related to the Use of AndroGel® in the Long-Term, Follow-up Study

Adverse Event	Dose of AndroGel®		
	5 g	7.5 g	10 g
Lab Test Abnormal*	4.2%	0.0%	6.3%
Peripheral Edema	1.4%	0.0%	3.1%
Acne	2.8%	0.0%	12.5%
Application Site Reaction	9.7%	10.0%	3.1%
Prostate Disorder**	2.8%	5.0%	18.8%
Urination Impaired	2.8%	0.0%	0.0%

*Lab test abnormal included one patient each with elevated GGT, elevated hematocrit and hemoglobin, increased total bilirubin, worsened hyperlipidemia, decreased HDL, and hypokalemia.

**Prostate disorders included enlarged prostate, elevated PSA results, and in one patient, a new diagnosis of prostate cancer; three patients (one taking 7.5 g daily and two taking 10 g daily) discontinued AndroGel® treatment during the long-term study because of such disorders.

DRUG ABUSE AND DEPENDENCE

AndroGel® contains testosterone, a Schedule III controlled substance as defined by the Anabolic Steroids Control Act.

Oral ingestion of AndroGel® will not result in clinically significant serum testosterone concentrations due to extensive first-pass metabolism.

OVERDOSAGE

There is one report of acute overdosage by injection of testosterone enanthate: testosterone levels of up to 11,400 ng/dL were implicated in a cerebrovascular accident.

DOSAGE AND ADMINISTRATION

The recommended starting dose of AndroGel® 1% is 5 g delivering 5 mg of testosterone systemically, applied once daily (preferably in the morning) to clean, dry, intact skin on the shoulders and upper arms and/or abdomen. Upon opening the packet(s), the entire contents should be squeezed into the palm of the hand and immediately applied to the application sites. Application sites should be allowed to dry for a few minutes prior to dressing. Hands should be washed with soap and water after AndroGel® has been applied.

Do not apply AndroGel® to the genitals.

Serum testosterone levels should be measured approximately 14 days after initiation of therapy to ensure proper dosing; the serum testosterone concentration is below the normal range, or if the desired clinical response is not achieved, the daily AndroGel® 1% dose may be increased from 5 g to 7.5 g and from 7.5 g to 10 g as instructed by the physician.

Rx Only

Manufactured by Laboratoires Besins Iscovesco
Montrouge, France

For:

Unimed Pharmaceuticals, Inc.
A Solvay Pharmaceuticals, Inc. Company
Deerfield, IL 60015-2544, USA



A Solvay Pharmaceuticals, Inc. Company

THE NEW BOSSES

In a business climate this tough, the new breed had better have a thirst for challenge

These 12 men—and 2 women—all managed to grab the brass ring in 2002, when they were recruited or elevated to the top spot in their businesses. Now, though, they'll have to make sure the big prize doesn't end up being just a big pain. Yes, a few of these rookies took over stable, profitable companies. But most will be wrestling with the same tough issues that laid their predecessors low: collapsing markets, government probes, front-page scandals, even bankruptcy.

Pulling a company out of such a morass can pay well. The new CEO of scandal-plagued Tyco International Ltd., **EDWARD D. BREEN**, gave up a promising career at Motorola Inc.—where he was president and chief operating officer—to save what's left of the disgraced L. Dennis Kozlowski's debt-laden conglomerate. If he pulls it off, he stands to make \$50 million, including options. Likewise for **MICHAEL D. CAPELLAS**, who merged his faltering Compaq Computer Corp. with Hewlett-Packard Co. before leaving to head up WorldCom Inc. If he revives the bankrupt telecom, he could earn up to \$29 million.

Some new CEOs may not have much time to mull over their pay packages. They'll be too busy trying to cut deals with government watchdogs. **RICHARD C. NOTEBAERT**, the former Ameritech Corp. chief who replaced Joseph P. Nacchio as CEO at Qwest Communications International Inc., is expected to work out an agreement with the Securities & Exchange Commission, which is looking into Qwest's accounting. At Kmart Corp., **JAMES B. ADAMSON**, who ascended to the corner office from the failed retailer's board, has to contend with probes of company finances from both the SEC and the



PARSONS

FBI. And AOL Time Warner Inc.'s new CEO, **RICHARD D. PARSONS**, has to contend with SEC and Justice Dept. investigators checking out the books of his floundering AOL unit.

Salomon Smith Barney, the brokerage arm of Citigroup Inc., came under fire in 2002 from New York's aggressive attorney general, Eliot Spitzer. So Citi boss Sanford I. Weill lured **SALLIE L. KRAWCHECK**, former CEO of research outfit Sanford C. Bernstein & Co., to run Smith Barney and restore its credibility: its analysts had pushed dud stocks to win investment-banking business.

Several of this year's newbies will be consumed with answering one question: What do you do when good markets go bad? Fighting the tech slump at IBM is **SAMUEL J. PALMISANO**. Already CEO, he now takes on the chairman title from the retiring Louis V. Gerstner Jr. He'll continue to push



KRAWCHECK

IBM's array of services to its corporate clients. Meanwhile, after a stint as president at Eastman Kodak Co., **PATRICIA F. RUSSO** was lured back to Lucent Technologies Inc. as CEO. She pledged to put the ailing telecom-gear maker in the black by September—and is in the process of cutting 12,000 more jobs.

In fact, many of the new CEOs came in wielding axes. **JEAN-RENE FOURTOU** at Vivendi Universal has sold whole divisions to shore up the finances of the media colossus that predecessor Jean-Marie Messier built. And while the new CEO at Honeywell International Inc., **DAVID M. COTE**—who toiled in the General Electric Co. vineyards for 25 years and then briefly ran TRW Inc.—has effectively cut costs, he may need to take more radical steps and unload some struggling businesses.

In consumer goods, **PAUL S. PRESSLER** decamped from Walt Disney Co., where he ran its theme parks and resorts, to head Gap Inc. and boost its shrinking market share. He is expected to cut costs by slashing the number of Gap stores in 2003. And **LOUIS C. CAMILLERI**, the new No. 1 at Philip

Morris Cos., has to reverse a recent and alarming slide in U.S. sales of its flagship Marlboro cigarettes.

For a lucky few, the future is comparatively bright. Young marketing whiz **AUGUST A. BUSCH IV**, 38, landed the top job at Anheuser-Busch's domestic brewing unit. He may have to battle critics who want to ban TV beer ads—but he also has the No. 1 brew in the land: Bud Light. Johnson & Johnson lifer **WILLIAM C. WELDON**, who copped the top spot at the medical company, will probably seek out acquisitions to



PRESSLER

keep J&J growing. But he'll have help from the company labs, too. In 2003, J&J is set to begin sales of a likely blockbuster device that prevents arteries from relogging after angioplasty.

That's good for him. Now, if only there were some nifty new devices that could save his peers from the business woes they will have to deal with in the coming year. □

“We intend to make our businesses run right... There will be no more silly deals”

—Richard D. Parsons, CEO of AOL Time Warner, at a media conference on Dec. 9

(CLOCKWISE FROM TOP) PHOTOGRAPHS BY PETER KRAMER/STAR MAX, BLOOMBERG NEWS, MALCOLM LINTON/BLOOMBERG NEWS, BLOOMBERG NEWS

THE WORST MANAGERS

Some miscalculated.
Some overreached.
Some were just plain inept. What a year

SANDY WEILL Citigroup

In years past, Sanford I. Weill, 69, has landed on *BusinessWeek's* Best Managers list for delivering value to shareholders. But in 2002, Weill and Citigroup Inc., the banking giant he heads, seemed to land in almost every scandal around. Off-balance-sheet deals that disguised debt? Citigroup was a major provider to Enron Corp. and others. Analysts who issued glowing reports to win investment-banking business? Citi's Jack Grubman could be the poster boy for the practice. High-priced consumer lending? Citi paid a \$215 million fine for predatory lending practices at Associates First Capital Corp. that took place before Citi bought it.

Weill himself admitted that he asked Grubman to "take another look" at AT&T

stock while AT&T CEO C. Michael Armstrong and Weill sat on each other's boards. Grubman eventually issued a more favorable opinion, and Citi won a chunk of business from the telecom giant. Citi also acknowledged that a \$5 million corporate donation to Manhattan's 92nd Street Y followed Grubman's plea to Weill for help getting daughters into the Y's exclusive preschool.

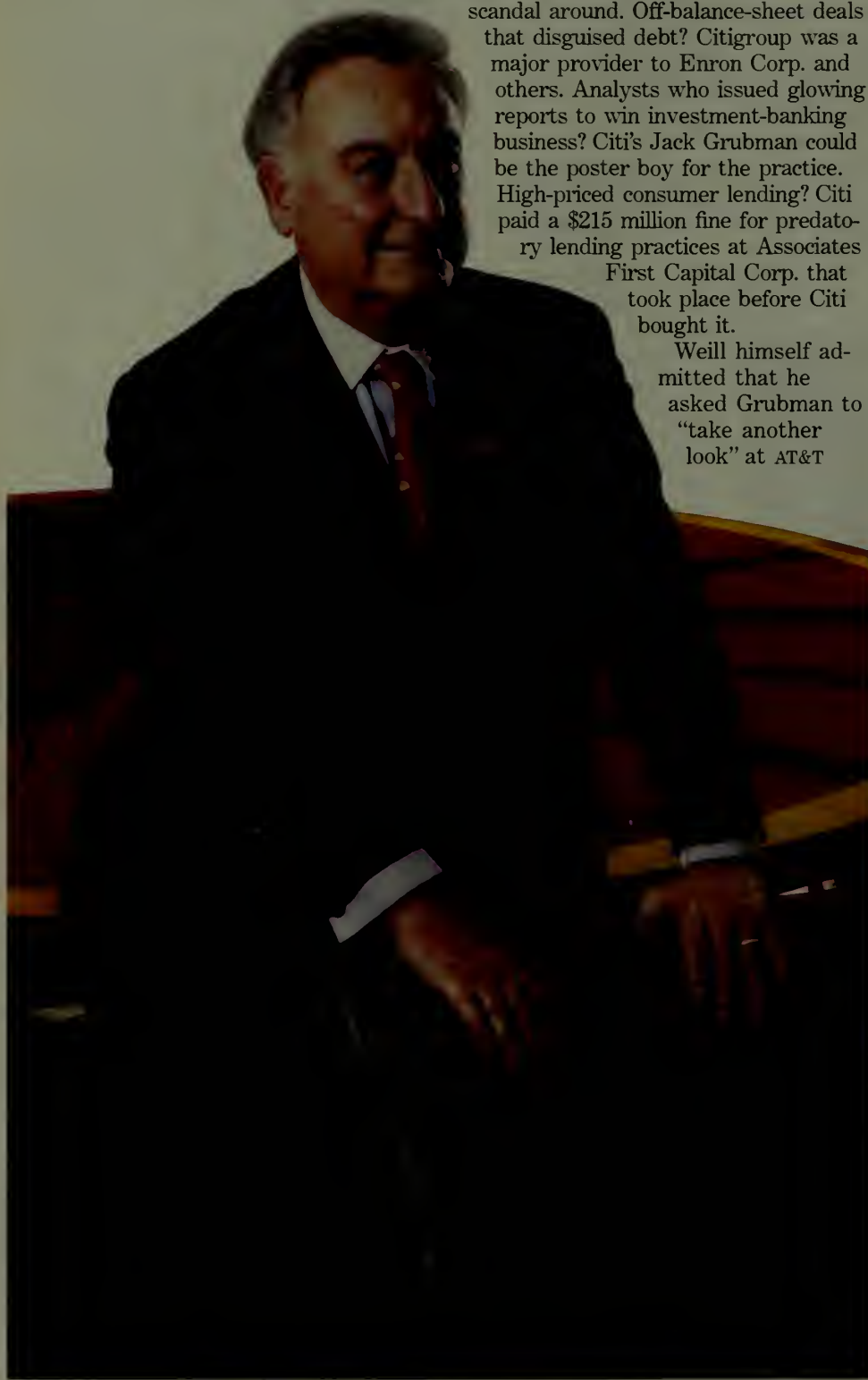
Citi did announce a series of reforms. It made its structured-finance deals more transparent. And it separated its research and investment-banking operations, putting the former under Sallie Krawcheck, whom Weill hired away from Sanford C. Bernstein & Co. That didn't spare Citi, though, which paid the highest fine (\$400 million) of any Wall Street firm in a Dec. 20 settlement with regulators.

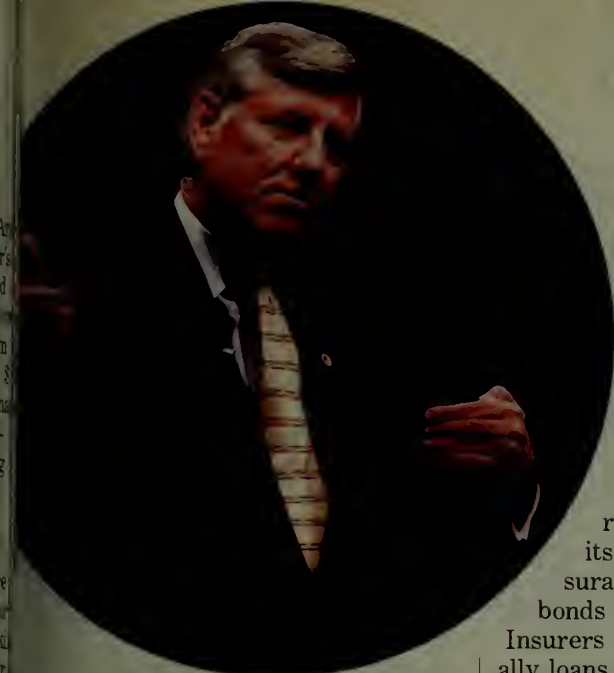
Three days later, it announced that it would take \$1.5 billion in charges, mainly to cover fines and civil litigation related to conflicted research and Enron. Weill said that Citi was closing a "difficult chapter" in its history and still expected record earnings in 2002. For Citi shareholders, who have watched the value of their investments drop by 30% in 2002, it may not be so easy to move on. □

DICK BROWN Electronic Data Systems

What was he thinking? In August, well into the tech industry's season of discontent, Richard H. Brown, the 55-year-old CEO of Electronic Data Systems Corp., told institutional investors and analysts that his company was faring better than its rivals: The Plano (Tex.) IT-services giant had plenty of deals in the pipeline that would assure big-time growth in the near future. He didn't say this just once, but over and over as he traveled around the country.

Six weeks later, on Sept. 18, Brown had to take it all back. Believe it or not, the recession had snuck up on EDS. Instead of growing, revenues would drop in the third and fourth quarters, and profits would sink by as much as 84%. It wasn't just the sluggish economy: The company had underestimated its costs on a few large contracts and had to take a \$31 million charge. Investors sliced EDS's market value in half.





That wasn't the end of Brown's fiascos. Less than a week later, an analyst revealed that EDS had made an undisclosed \$225 million payment to settle out options and purchase agreements on its own stock that had been entered into months earlier when shares were near their peak. Brown, who declined to comment, has said he has no plans to leave EDS. Sounds as if his optimism is getting the better of him again. □

BILL HARRISON J.P. Morgan Chase

William B. Harrison Jr., chief executive of J.P. Morgan Chase & Co., thought he would get the bad news out of the way early. So last January, he revealed that because of losses in the private equity business, loans to Enron Corp., and investments in Argentina, net income for 2001 would fall by half from 2000. Investors were ringed—but they hoped that at least the year ahead would be better.

The optimists were proved wrong. In September, Harrison, 58, said that the bank would take yet another write-down for bad loans and plummeting trading revenues. As a key financier to scandal-wracked Enron, Morgan was dragged through the mud in Congress. Its stock traded as low as \$15.26 a share in October, less than half its January value. In a recent memo to employees, Harrison said: "No one is happy with our performance this year, but we are positioned well for a rebound in the economy."

J.P. Morgan Chase has fared better than rivals in investigations into conflicts of interest among research analysts. Why? It was too new in stock

underwriting to have a conflict. Still, in a recent industrywide settlement, Morgan agreed to kick in \$80 million in fines to New York State Attorney General Eliot Spitzer and securities regulators.

Harrison's troubles are hardly over. The odds are rising that Morgan will lose its \$1 billion suit against 11 insurance companies over surety bonds on trades made by Enron.

Insurers allege the trades were actually loans. On Dec. 23, New York Judge Jed S. Rakoff ruled that the jury can see e-mails in which a senior Morgan exec describes the contracts as "disguised loans, usually buried in commodities or equities derivatives." - Doubts over Harrison's ability to put J.P. Morgan Chase back on track are growing. Some executives question whether he can manage risks in the firm's credit and trading portfolios. Some investors speculate that Harrison could lose his job by the end of January if the bank's fourth-quarter results, due out mid-month, don't show signs of improvement. Sounds like more bad news for Harrison. □



GOOD TIMING

Some corporate bigwigs made their moves at eerily fortuitous moments

What did he know and when did he know it? That question has bedeviled Oracle Corp. investors since January, 2001, when CEO **LAWRENCE J. ELLISON** exercised 22 million options for a gain of \$706 million and sold 29 million shares on the open market.

Within six weeks, Oracle announced it would miss earnings forecasts, sending its stock plummeting. An Oracle spokesman said Ellison declined to comment. Investors, meanwhile, made a beeline for the courthouse. Their main lawsuit against Oracle has been dismissed twice, but shareholders have refiled. The company declined to comment.



ANSCHUTZ

Investors in Qwest Communications International Inc. are buzzing mad, too. They accuse founder and Chairman **PHILIP F. ANSCHUTZ** of unloading billions of dollars in shares before accounting problems came to light, sinking the stock. Spokesman Jim Monaghan says Anschutz didn't know Qwest stock was about to crash and still holds most of his shares.

After accounting problems came to light in May, software maker Peregrine Systems Inc. filed for bankruptcy. But in 1999, it looked like a gusher, with shares rising eightfold in one year. From 1999 to 2001, Chairman **JOHN J. MOORES** and entities

associated with him sold 14 million shares, most of them during the runup. Shareholders say that's too much of a coincidence and have filed suit. Moores declined to comment. □



ELLISON



MOORES

Cablevision

revenues were only about \$4 billion in 2001. Cablevision, founded by Charles in 1954, was forced to sell its Bravo channel to NBC for \$1.25 billion. American Movie Classics and its Clearview Cinemas chain are also on the block. "With a strengthened financial position and added flexibility, we look forward to continuing our progress," says a company spokesperson.

Still, Cablevision's share price is down 66% since January, 2002, to about \$17. Time Warner Cable has long been interested in buying its systems. The Dolans may be ready to cash out. □

Losing several thousand customers, though, was nothing compared to the severe cash crunch the Dolans faced. Years of spending to upgrade its cable systems and an imprudent buying spree left the company with nearly \$7 billion in debt. That's quite a burden, considering that its

Peter R. Dolan, the 47-year-old chairman and CEO at Bristol-Myers Squibb Co. and a former marathon runner, has an athlete's endurance. The question these days is whether investors will allow him to finish his most challenging contest ever: fixing Bristol.

Since he took over in May, 2001, the stock has lost half its value. Dolan had been in the top job at Bristol, the world's seventh-largest drug company, only a few months when he struck a \$2 billion deal with ImClone Systems Inc. to co-develop and co-promote its cancer drug Erbitux. The Food & Drug Administration rejected ImClone's application just

THE FALLEN

Debt, financial chicanery, and bad decisions were among the ills in these corner offices

MESSIER

Messier, 46, isn't paranoid—the French Establishment did turn on him. But it's also true that

he created a mammoth mess. He pushed the company to the brink of collapse by running up \$19 billion in debt from an acquisition spree and spooking investors with confusing financial communications, which are now under investigation by authorities in

With his thick New York accent and blunt manner, **JOSEPH P. NACCHIO** often came across as the Joe Pesci of the telecom world. The former CEO and chairman of Qwest Communications International Inc. created one of the biggest players in the new wave of phone companies.



NACCHIO

But by early 2002, Qwest was staggering under \$25 billion in debt. Nacchio was out by June. He later testified before a Congressional committee investigating alleged accounting chicanery. Nacchio main-



PITTMAN

ent of the kingdom that would rule the media. Now, **ROBERT W. PITTMAN**, known for his abrupt transition as AOL Time Warner's chief operating officer in July—right before allegations of accounting misdeeds at AOL unit surfaced. Although Pittman, 49, has not been implicated in the ongoing legal investigations, his luck had already dulled when he was passed over to succeed departing CEO Gerald Levin. As the troubles

months later. How did Dolan miss the warning signs? He declined to comment. Dolan took a \$367 million pretax write-down on the investment.

Then, in the fall Dolan announced Bristol would have to restate sales and earnings, primarily for 2000 through 2002, allocating some \$2 billion in sales. The SEC and the U.S. Attorney's Office in New Jersey are now investigating.

Dolan has shaken up management, including hiring a new CFO. But Bristol still faces sluggish sales growth. After these stumbles, Dolan may find this is the race he can't finish. □

PAUL ALLEN Charter Communications

In his spare time, billionaire Microsoft Corp. co-founder Paul G. Allen plays the guitar in a rock band called Grown Men. He might be better off paying more attention to his day job, managing his portfolio—especially his investment in the troubled cable company, Charter Communications.

In the late 1990s, Allen hit on the notion of cable as the crucial link for the "wired world," which would bring the Internet into folks' living rooms.



He paid nearly \$7 billion to create Charter, now the country's third-largest cable company, with nearly 6.7 million subscribers. These days, his 56% stake would go for about \$423 million. Though the company is hobbled by some \$18.5 billion in debt (taken on

so it could lay miles of superfast fiber-optic wires), a spokesman says Allen "remains confident in the vision of the wired world." Good thing. Because Allen may have to dole out more money if Charter's financial situation deteriorates further.

Or he could take it private. But he'll have to wait until a federal grand jury and the Securities & Exchange Commission finish investigating accounting issues and whether Charter overstated its subscriber count. The company says it is cooperating with the probes and has fired its CFO and COO. It's enough to make a Grown Man cry. □

“To question WorldCom's viability is utter nonsense. I highly recommend everyone step back and focus on reality rather than the fear factor”

— Bernard J. Ebbers, then CEO of WorldCom, to analysts on Feb. 7

any mounted, Pittman offering wildly optimistic notions of advertising revenue. That was just one reality he became the target of Warner employees' resentment over unauthorized retirement plans.

CEO of Andersen World-
JOSEPH F. BERARDINO

led over the year's most accounting scandals and the implosion of a legendary partnership. Andersen had stamped their seal on the dirty books of Enron, Global Crossing, and WorldCom, the

single largest financial fraud of all time. A lifetime Andersen employee, Berardino, 53, had the chance to take a hard line

on ethics and quality in the wake of earlier scandals at Waste Management and Sunbeam. Instead, insiders say, he put more emphasis on revenue growth. Berardino ultimately resigned in disgrace in March—unemployable in his profession. "I can sell hot dogs if I have to," he said.

Outgoing McDonald's Corp. CEO **JACK M. GREENBERG**

leaves the burger chain with supersize problems: slow service, schizophrenic marketing, and its first-ever loss in the fourth quarter. Not all the company's troubles are Greenberg's doing, though. McDonald's is a growing target of global protest, and an Indonesian franchise was recently bombed by terrorists. In the

courts, the company faces a lawsuit brought by parents of two teenagers who blame Big Macs and fries for their children's obesity. Still grasping for a recipe for profits, the company has lured former Vice-Chairman Jim Cantalupo back from retirement. He'll have a tough job shoring up the sagging arches.

CHARLES C. CONAWAY, 42, spent less than two years as chief executive of Kmart Corp. But he left his mark on the 103-year-old discounter: Before his mid-March ouster, Conaway led Kmart into retailing's largest bankruptcy filing ever, in January. The energetic Conaway (he even bounded up the steps to bankruptcy court) wanted to improve the

company's marketing, but most of what he tried flopped. Not all of the company's bad news was Conaway's fault, though. Kmart's strongest brand is Martha Stewart. Enough said.

History may rewrite the bum verdict on **THOMAS MIDDELHOFF**'s tenure as chief executive of German media giant Bertelsmann. Middelhoff, who was pushed out in July, made deals that in a few years may look smart, such as the string of transactions that

gave Bertelsmann control of RTL Group, Europe's biggest TV company. But like so many New Economy heroes, Middelhoff was transfixed by the Internet hype. His online ventures stumbled, most famously his



CONAWAY



MIDDELHOFF

THE WORST MANAGERS

BARRY MELANCON American Institute of CPAs

When the big audit failures of Enron Corp. and WorldCom Inc. came to light, the last person the American Institute of Certified Public Accountants needed as their chief executive was Barry C. Melancon. Even after the dismal performance of Arthur Andersen LLP at Enron and the collapse of the accounting firm, Melancon, 44, still argues that accountants should be allowed to solicit lucrative consulting deals from the companies they audit. Melancon insists there is no proof that Andersen's auditors were influenced by the firm's side deals. His stance left

AICPA with little say as Congress drafted reforms.

No one should have been surprised. It was Melancon who, just before the scandals broke, led the organization to spend \$4.7 million to try to persuade its 340,000 CPA members to offer a new, easier-to-obtain credential that would nonetheless certify that its holders possessed "breadth of knowledge, strategic focus, and professional rigor." Melancon thought this

would help draw in more young people to the profession, but the proposal was rejected.

Melancon, who earns \$600,000 a year, signed a second five-year contract in 2000. "I am very passionate about this profession and this organization," he says. "I am a change agent." If accountants really want to win back trust, they should change agents. □

...an atmosphere of corporate McCarthyism

— Ousted Qwest Communications International CEO Joseph P. Nacchio on Mar. 11, describing the post-Enron regulation-happy atmosphere. He lost more than \$150 million worth of company stock before he was ushered out amid SEC investigations

THE FALLEN

quixotic attempt to legitimize the free music-swapping service Napster Inc. Still, it was Middelhoff who gave the former Bible publisher its global cachet.

RICHARD J. KOGAN never wanted to sell Schering-Plough Corp. And he won't: That job is likely to fall to his successor. The drugmaker's biggest problem is that even during the flush years of the 1990s, Kogan neglected its manufacturing operations: In 1999, the company shipped asthma inhalers that didn't contain any medicine. In May of this year, Schering agreed to pay a \$500 million fine and hire outside experts to bring its

operations up to standard.

But that's not the end of the matter. The U.S. Attorney's Office in New Jersey is investigating certain products made at a Schering plant in Puerto Rico. And the Securities & Exchange Commission began an inquiry into meetings Kogan had



KOGAN

with big investors this fall to determine if he improperly disclosed material information. Kogan declined to comment. The question now is whether Kogan's successor (Pharmacia CEO Fred

Hassan is the leading candidate) will try to remedy the company's ills or simply find a rich buyer.

Allegations of sham energy trades and accounting fraud. With Dynegy Inc. facing these charges, it was obvious that **CHARLES L. WATSON**, 52, wouldn't last long in his job as CEO. He resigned in May. Now, Dynegy is selling assets and dismantling its energy-trading business. Watson faces various investigations and lawsuits; he couldn't be reached for comment. But he has said that he may return to the industry. It's hard to think of any shareholder who would encourage that.



WATSON

The biggest mistake Credit Suisse

Group CEO **LUKAS MUHLEMAN**, 53, made was clinging too tightly to power. Shareholders



MUHLEMAN

wanted him to give up his role either as CEO or as chairman. But he resisted—and lost both.

His other mistakes included the \$11.3 billion acquisition of Donaldson, Lufkin & Jenrette Inc. at the top of the market in 2000. And Credit Suisse First Boston, the group's investment-banking division, continued to lose money. Now, Credit Suisse may have to spin off the investment bank. It's a big come-down from the days when the group was one of Europe's most dynamic and profitable financial-services companies. □

The

“KISS YOUR DATA
HELLO”

storage software company.

86% of the FORTUNE 500® rely on VERITAS Software for data backup and recovery.

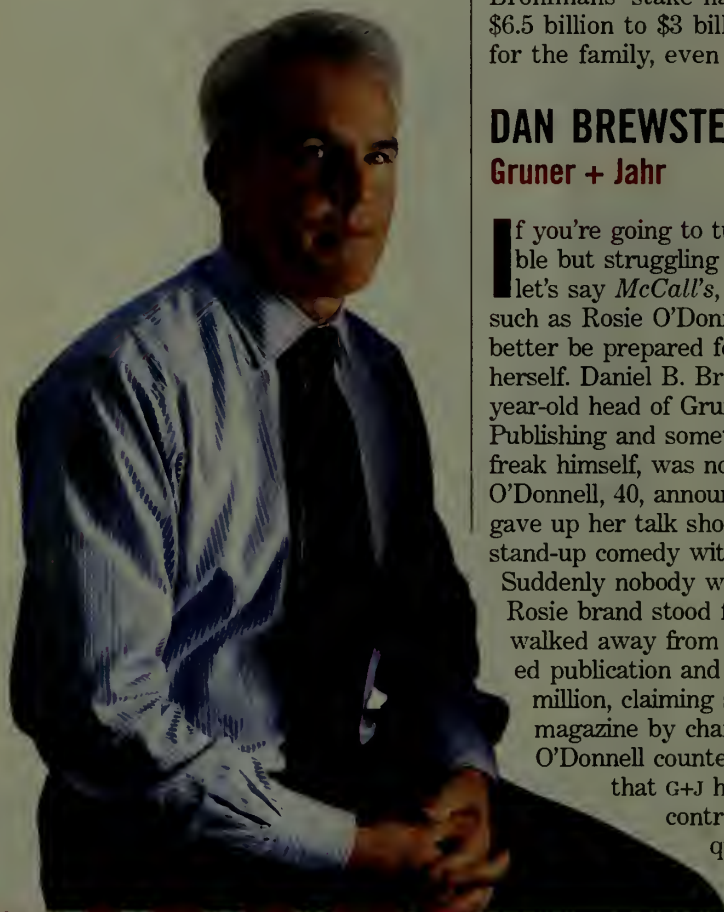
veritas.com

VERITAS™

THE WORST MANAGERS

Bad Dealmakers

Some of yesterday's leading lights now have egg on their faces



EDGAR BRONFMAN
Vivendi Universal

Edgar Bronfman Jr., 47, may just be the most desperate billionaire around these days. His decision in 2000 to sell Seagram Co., his family's liquor and entertainment company, to Vivendi Universal was supposed to protect the clan's future. But CEO Jean-Marie Messier brought the company close to bankruptcy. By the time he was ousted in July, the value of the Bronfmans' stake had shrunk from \$6.5 billion to \$3 billion—a huge loss for the family, even if only on paper.



DAN BREWSTER
Gruner + Jahr

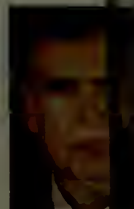
If you're going to turn over a venerable but struggling women's magazine, let's say *McCall's*, to a feisty celebrity such as Rosie O'Donnell, then you had better be prepared for her to assert herself. Daniel B. Brewster Jr., the 47-year-old head of Gruner + Jahr USA Publishing and something of a control freak himself, was not. In the spring, O'Donnell, 40, announced she was gay, gave up her talk show, and returned to stand-up comedy with a vengeance.

Suddenly nobody was sure what the Rosie brand stood for. And then Rosie walked away from *Rosie*. G+J suspended publication and sued her for \$100 million, claiming she had doomed the magazine by changing her image.

O'Donnell countersued, asserting that G+J had seized editorial control, forcing her to quit. She wants \$125 million.

GERALD LEVIN
AOL Time Warner

When Gerald M. Levin announced in January, 2000, that he was selling Time Warner Inc. to America Online Inc., he was called a visionary. By that fall, he was branded as reckless. Indeed, when Internet stocks crashed and the economy slowed, whatever grand ambitions Levin had about combining old and new media began to look ludicrous. He has said it's too early to judge the deal. Today AOL Time Warner Inc. is worth 75% less than it was in January, 2001, when the deal closed. The company, burdened by \$24 billion in debt, its credit rating is tenuous, it has had to write off \$54 billion in assets, and it faces Securities & Exchange Commission and Justice Dept. investigation into accounting practices at AOL. Meanwhile, Levin, 63, retired early and left colleagues to defend an idea that few believe in anymore.



HERSHEY TRUST CO.

The Trust, which controls 77% of the voting stock of Hershey Foods Corp., managed to embitter nearly everyone involved in its short-lived attempt to sell the company. The idea was to diversify its holdings. But citizens in Hershey, Pa., protested, as did alumni of the school for needy kids that is funded by the Trust. And the state attorney general sued to block a quick sale. The Trust backed down—just as Hershey execs were close to striking a deal with competitor Wm. Wrigley Jr. Co. Since the fiasco, 10 of the 17 directors have left the board. □

PADDED RESUMES

Fake laurels that went unnoticed for years

The chief financial officer of Veritas Software, **KENNETH LONGCHAR**, was ousted in October when board members discovered that he never graduated from Stanford

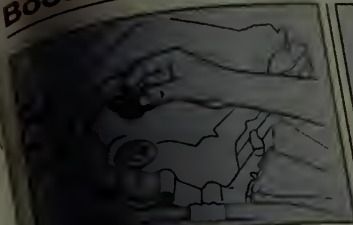
University's business school as he had claimed. Actually, the 44-year-old never even attended Stanford. And for a good 15 years, nobody in Silicon Valley bothered to make a local call to inquire.

The 53-year-old chairman and chief executive of Bausch & Lomb Inc., **RONALD L. ZARRELLA**, falsely claimed to have earned an MBA from New York University. When he was found out in October, he had to forfeit a bonus of \$1.1 million. Guess the headhunter that

recommended Zarrella to his previous employer, General Motors Corp., hadn't checked up on him, either. **BRYAN MITCHELL**, the 42-year-old head of MCG Capital Corp., admitted in November that he never earned an undergraduate degree from Syracuse University, although he did attend the school. He resigned as chairman and forfeited his 2001 and 2002 bonuses—but remains CEO. □



Boosting Mississippi's Economy.

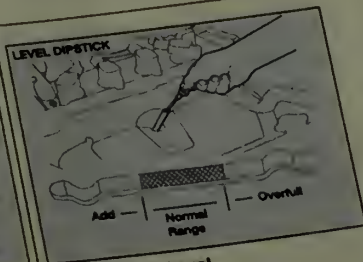


1. State-of-the-Art
 1.3 million square foot facility
 to build trucks, SUVs
 Begin erecting structure



2. Have Suppliers Pour Resources Into Local Economy.

Production suppliers like
 Lextron/Visteon Automotive Systems,
 Systems Electro-Coating and AJA
 SouthStar Transport begin
 constructing new facilities in order to
 be closer to the plant.



3. Check New Level of Economy.

With the creation of thousands of
 new jobs and over a billion
 dollars injected into the region,
 observe the economic levels increase.

Caring for your state. 228

THE PERP WALK

Watching executives climb the courthouse steps became a spectator sport in 2002

It was a year of parades. Parades of CEOs, that is, being marched into courthouses and called before Congress. America hadn't been treated to the shameful sight of so many highly paid executives in custody since the Wall Street scandals of the 1980s. Some have bitten the bullet and acknowledged wrongdoing. Others are still loudly proclaiming their innocence. Here's a rundown of who was charged with what in 2002.

Former Tyco International Ltd. CEO **L. DENNIS KOZLOWSKI**, indicted first on sales-tax evasion charges, faced a second indictment, along with former CFO **MARK H. SWARTZ**, for allegedly stealing \$600 million from Tyco through enterprise corruption involving stock fraud and unauthorized bonuses and loans. Through their attorneys, both have maintained they did nothing wrong. The scandals at Tyco reached the board as well: Former Director **FRANK E. WALSH JR.** pleaded guilty to securities fraud, repaying \$20 million he had received—but never disclosed—for helping to broker an acquisition, plus a \$2.5 million fine.

JOHN J. RIGAS, the 78-year-old founder and former CEO of cable company Adelphia Communications Corp., and his sons **TIMOTHY** and **MICHAEL**, both former executives there, were arrested in July on charges that they looted the company of more than \$1 billion, using it as their "personal piggy bank." If convicted of the worst criminal charges, each family member could face up to 30 years in prison and millions of dollars in fines. They have pleaded not guilty.

Acknowledging "terrible mistakes" he had made, ImClone Systems Inc. founder **SAMUEL D. WAKSAL** pleaded guilty in October to six charges, including securities fraud, perjury, and obstruction of justice, stemming from his role in a flurry of stock sales that occurred in late 2001, after he learned that the Food & Drug Administration was about to reject ImClone's application



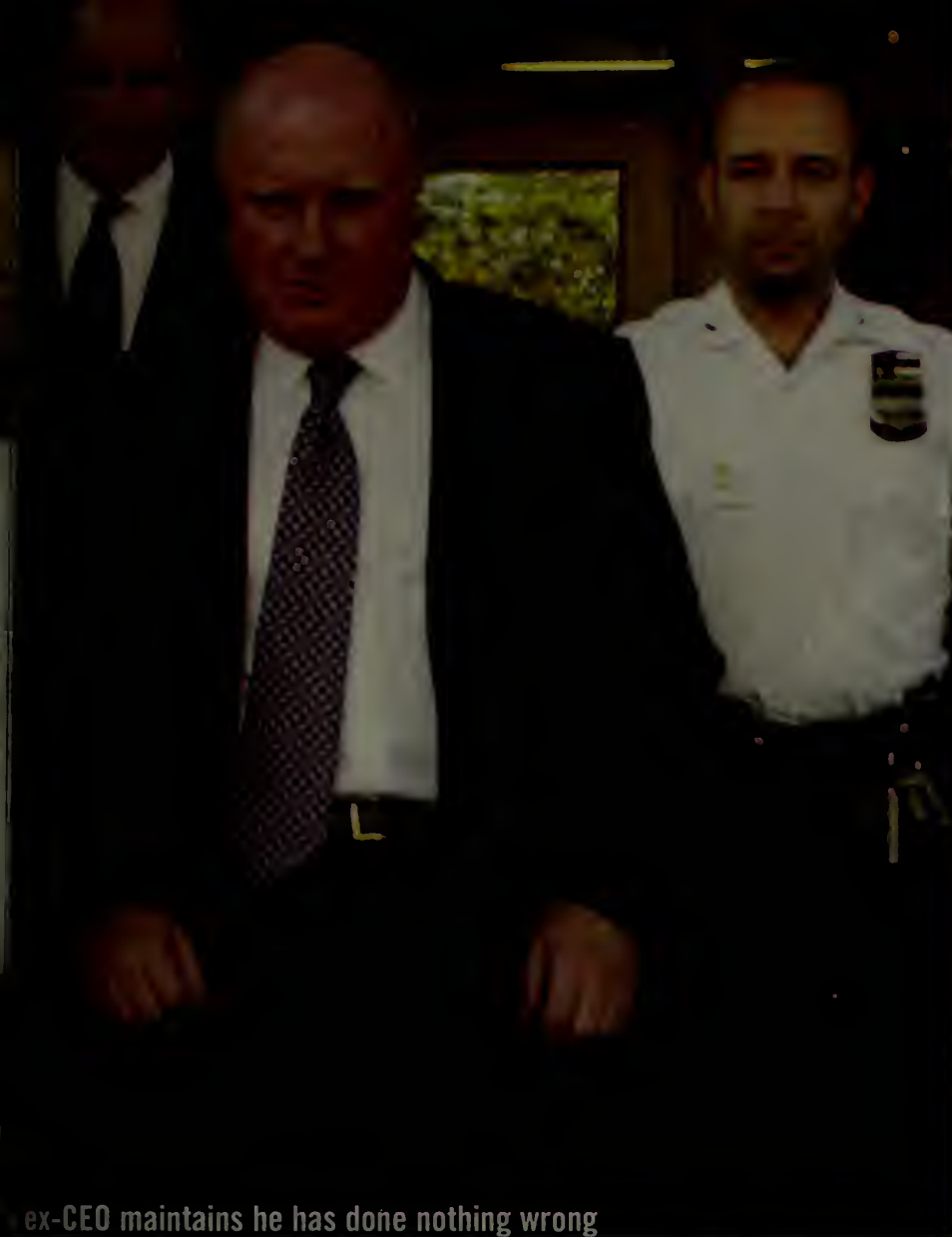
ImClone's founder pleaded guilty



Enron's CFO with FBI escort



Adelphi



ex-CEO maintains he has done nothing wrong



der in Manhattan



Rite Aid's ex-CEO pleaded not guilty

UNDER FIRE

These execs, too, are embroiled in a range of investigations

Former high school basketball coach **BERNARD J. EBBERS** built WorldCom Inc. by acquiring dozens of telecom companies during the 1990s boom. Now he's under scrutiny by Justice Dept. investigators who wonder whether he had any inkling of the massive accounting fraud that WorldCom undertook to bolster its results. The Securities & Exchange Commission estimates the magnitude of the deceit at \$9 billion so far. Investigators may also be looking at a \$408 million loan that WorldCom made to Ebbers. Several lower-level execs have been indicted and some are cooperating with the government, but former CEO Ebbers has not been charged. His lawyer maintains he is innocent. Ebbers kept most of his personal wealth in company stock and is believed to now have a negative net worth.



EBBERS

JACK GRUBMAN, the former telecom-research star at Citigroup's Salomon Smith Barney, would be banned for life from the securities industry and pay a \$15 million fine under a tentative agreement with New York State Attorney General Eliot Spitzer. Grubman, who was being investigated for his ties to now-bankrupt telecom companies, neither admitted nor denied guilt. The deal does not preclude further probes by Spitzer and others.



GRUBMAN

Global Crossing Ltd. Chairman **GARY WINNICK** has been questioned by the SEC and Justice Dept. about his company's possibly misleading "swap" transactions of telecom capacity that helped boost its revenue in 2000 and 2001. The company's unsecured



WINNICK

THE PERP WALK



DAVID DUNCAN The Arthur Andersen partner cooperated with investigators



“On the day I left, I absolutely and unequivocally thought the company was in good shape”

—Jeffrey K. Skilling in sworn testimony to a House subcommittee on Feb. 7, referring to Enron's finances at the time he resigned as CEO on Aug. 14, 2001

for approval of a new cancer drug. He faces seven to nine years in prison under federal sentencing guidelines.

Enron Corp.'s former chief financial officer, **ANDREW S. FASTOW**, pleaded not guilty in November to 78 criminal counts of fraud, conspiracy, money laundering, and obstruction of justice. He is accused of using special-purpose entities to hide debt and inflate profits while enriching himself, actions that led to the collapse of the energy company. His former lieutenant, **MICHAEL J. KOPPER**, pleaded guilty in August to conspiracy to commit wire fraud and money laundering. Kopper also disclosed that he had paid kickbacks to Fastow and his family in some of their secret deals. **DAVID DUNCAN**, Arthur Andersen LLP's partner on the Enron account, pleaded guilty in April to obstruction of justice for destroying key documents. He agreed to cooperate with government investigators building a case against Fastow and others.

Former WorldCom Inc. CFO **SCOTT D. SULLIVAN** pleaded not guilty to multiple fraud charges in connection with an accounting fraud of more than \$9 billion that he is accused of engineering at the bankrupt telecommunications giant.

GARY MULGREW, **GILES DARBY**, and **DAVID J. BIRMINGHAM**, three former National Westminster PLC bankers in London, were charged by a Texas grand jury with wire fraud stemming from a secret investment in an Enron partnership. Getting them extradited to the U.S. could be a challenge, though. Their lawyer has declined to comment.



THOMAS HAFFA Did he masterm

In Munich, brothers **THOMAS** and **FLORIAN HAFFA** are on trial for allegedly misleading investors in their once high-flying media group, EM.TV, by knowingly releasing inaccurate forecasts in 2000 that included figures from deals that had not yet been done—and some that never came to fruition. The trial is the first under a new German law that makes it illegal to manipulate share prices. The brothers say they never intentionally lied and were unaware of the true financial state of EM.TV.

The four former top executives at

UNDER FIRE



istic at Germany's EM.TV



WALLY MILLER A British operative in the Enron mess



Com's accounting fraud?

Drug retailer Rite Aid Corp.—CEO **MARTIN L. GRASS**, Chief Counsel and Vice-President **FRANKLIN C. BROWN**, Executive Vice-President and Finance Chief **FRANKLYN M. BERGONZI**, and Executive Vice-President for Pharmacy Services **ERIC S. SORKIN**—pleaded not guilty to various combinations of charges in a 37-count criminal indictment in June that ranged from conspiracy to defraud to conspiracy to obstruct justice. Each faces as many as 10 years in prison for allegedly operating an illegal accounting scheme that triggered a \$1.6 billion restatement of net income. □



DAVID A. GEORGINE Tyco's former CFO faces charges of theft

creditors have been pressing for his removal as chairman. His lawyer says Winnick is just a witness, not a target of the investigation.

Home-decorating doyenne **MARTHA STEWART** has been informed by the SEC's enforcement staff that it intends to recommend filing civil securities-fraud charges against her in connection with her sale of nearly 4,000 shares of ImClone Systems Inc., the biotech company founded by her friend Samuel D. Waksal. Federal prosecutors in New York also are believed to be weighing possible criminal charges of securities fraud, obstruction of justice, and making false statements about the sale. Stewart has denied any wrongdoing.



STEWART

ULLICO Inc. CEO **ROBERT A. GEORGINE** is under criminal investigation by a



GEORGINE

Washington grand jury, as well as civil inquiries by the Labor Dept. and other agencies. At issue are the millions of dollars he and other labor leaders allegedly made from a secret deal to buy

stock in the union-owned company just before shares were repriced to reflect the soaring value of an early investment in Global Crossing. The union officers serve as directors of ULLICO, the parent of Union Labor Life Insurance Co. Georgine has declined to comment.

SANJAY KUMAR, the chairman and CEO of Computer Associates International Inc., must guide his company through investigations by the SEC and Justice Dept. into alleged accounting irregularities that occurred while he was the right-hand man to CA founder and former Chairman Charles B. Wang, who left in November. Kumar denies that CA has done anything illegal.



KUMAR

DAVID COLBURN, ousted in August as president of business development at AOL Time Warner Inc., is under investigation by federal prosecutors and the SEC, according to *The Washington Post*, on suspicion of having improperly boosted online advertising revenues. His lawyer declined to comment. □

THE WHISTLE BLOWERS

They raised the alarm about misdeeds at their employers—and made history in the process



BARRON STONE Duke Power

When Duke Power agreed in October to credit \$25 million to utility customers in North Carolina and South Carolina, it was sweet vindication for whistleblower F. Barron Stone. The accountant had warned his bosses at the utility that they were overcharging ratepayers. When they wouldn't listen, he told state regulators, triggering an investigation that resulted in the company, a unit of Charlotte (N.C.)-based Duke Energy Corp., agreeing to change its accounting and make customers whole. "I was just doing my job," says Stone who still works for the utility.

SHERRON WATKINS Enron

"I am incredibly nervous that we will implode in a wave of accounting scandals,"

Sherron S. Watkins (left) wrote in that now-infamous six-page memo to then-Chairman Kenneth L. Lay. Watkins, a vice-president at Enron Corp. until she resigned in late November, was the only employee to take her concerns about its suspicious practices to the top. But even she was cautious: After drafting the memo, she asked her mom, a retired business teacher who lives near Houston, to look it over. Watkins, 43, is now co-authoring a book about her experiences and planning to consult on governance issues.

MARTA ANDREASEN European Commission



As former chief accountant at the European Commission, Marta Andreasen touched off a furor last May when she refused to sign the EC's 2001 accounts. By August, the 48-year-old

Spaniard had been suspended from her job. Andreasen, who refuses to resign, claims the EC's \$100 billion budget is "out of control" and that the books are a mess. She was partially vindicated on Nov. 5, when an annual report by the EC's financial watchdog highlighted persistent defects in the accounting system. Andreasen's case is awaiting a commission review.

CYNTHIA COOPER WorldCom

Acting on a hunch and a few tips, Cynthia Cooper and two other internal auditors took it upon themselves to dig into the accounting practices at WorldCom Inc. Because they suspected the bosses had cooked the books, they worked after hours to avoid detection. What they found—that the company had artificially boosted profits—led to the ouster of Chief Financial Officer Scott D. Sullivan. In June, the SEC charged WorldCom with civil fraud. Sullivan was indicted on fraud and he pleaded not guilty. The company, which owned up to misstating \$9 billion in expenses, declared bankruptcy. Cooper, 38, remains at WorldCom.

WATCHDOGS IN ACTION

Best performance as a regulator by someone who isn't one

When the feds stumbled over how to rein in Wall Street firms and restore investor confidence, New York State Attorney General **ELIOT SPITZER** stepped into the void. He dug up incriminating e-mails that shamed



research and to stop doling out IPO shares to favored executives.

Wall Street and laid bare the conflicts of stock analysts. Now he's actually forcing financial firms to distribute independent

Worst performance by a regulator who never should have been one

Once upon a time, maybe it made sense to name as Wall Street's watchdog a former industry lawyer who believed in self-regulation. But in a post-Enron world, **HARVEY PITT** quickly became an embarrassment. He ap-



peared too chummy with accounting firms when the accounting scandals broke, met with Xerox Corp. CEO

Anne M. Mulcahy while that company was under SEC investigation, and repeatedly demonstrated a poor grasp of Washington politics. He finally resigned on Nov. 5. This has to go down as the Bush Administration's worst hire, yet.



One

company

provides total document solutions for business



One company provides solutions for virtually every imaging need. Like network copiers that scan directly to email or fax. Document systems that enable you to create, store and print forms on demand. Color output for about the cost of black & white. Multi-function machines that output both color and black & white at speeds up to 30 pages per minute. And the ability to manage all connected printers and copiers from a single site. All with outstanding reliability. All from one company. Kyocera Mita.

To learn more, visit www.kyoceramita.com or call 1-800-222-6482.



total document solutions

KYOCERA MITA AMERICA, INC.
www.kyoceramita.com

©2003 KYOCERA MITA AMERICA, INC.

THE WELCH LEGACY

As Jack's own star dims a bit, his GE disciples are managing with mixed results

JACK WELCH General Electric



In the 1990s, CEOs were envied and admired, elevated to capitalist royalty. And king of them all was Jack Welch. As CEO of General Electric Co. for 20 years, his ability to drive up shareholder wealth through a restless, results-driven corporate culture was heralded throughout the business world. And Welch's skill in training great managers was legendary—many of his protégés landed in the corner offices of large companies.

Now, a mere 16 months after Welch's retirement, his legacy looks less brilliant. A series of embarrassing public revelations have called Welch's judgment into question. An affair with a journalist, Suzy Wetlaufer, played out in tabloid headlines and led to a messy divorce battle with his second wife, Jane. The divorce proceedings exposed

the generous retirement perks that GE's board awarded the former CEO and the lavish lifestyle to which Welch, a working-class kid from Massachusetts, has become accustomed.

More troubling still is the way GE itself has struggled since Welch's retirement. Its stock has dropped 36%, double the decline in the Standard & Poor's 500-stock index, and his hand-picked successor, Jeffrey R. Immelt, has had to make major changes in Welch-era governance practices.

The recession and corporate scandals of the past year contributed, of course. But some of the changes reflect a reassessment of Jack's way of doing business. It would be unfair to look back and say that the emperor had no clothes. But his pinstripes are certainly looking a little frayed. □

JEFFREY R. IMMELT General Electric



Besides the recession Immelt has had to battle questions about accounting and corporate governance. He has taken some bold steps, including removing two conflicted board

members. But the stock is still down far beyond the market.

W. JAMES McNERNEY JR. 3M

McNerney imposed much-needed discipline, which helped 3M weather the recession better than most. Its stock was the third-best performer in the Dow Jones industrial average in 2002. And it's trading at 26 times earnings; GE's p-e is 16.



ROBERT L. NARDELLI Home Depot



His quick shift of authority from store managers to headquarters executives and use of cheaper part-time workers to minimize payroll during slow hours undercut service levels.

That helped drive some customers to thriving rival Lowe's Cos.

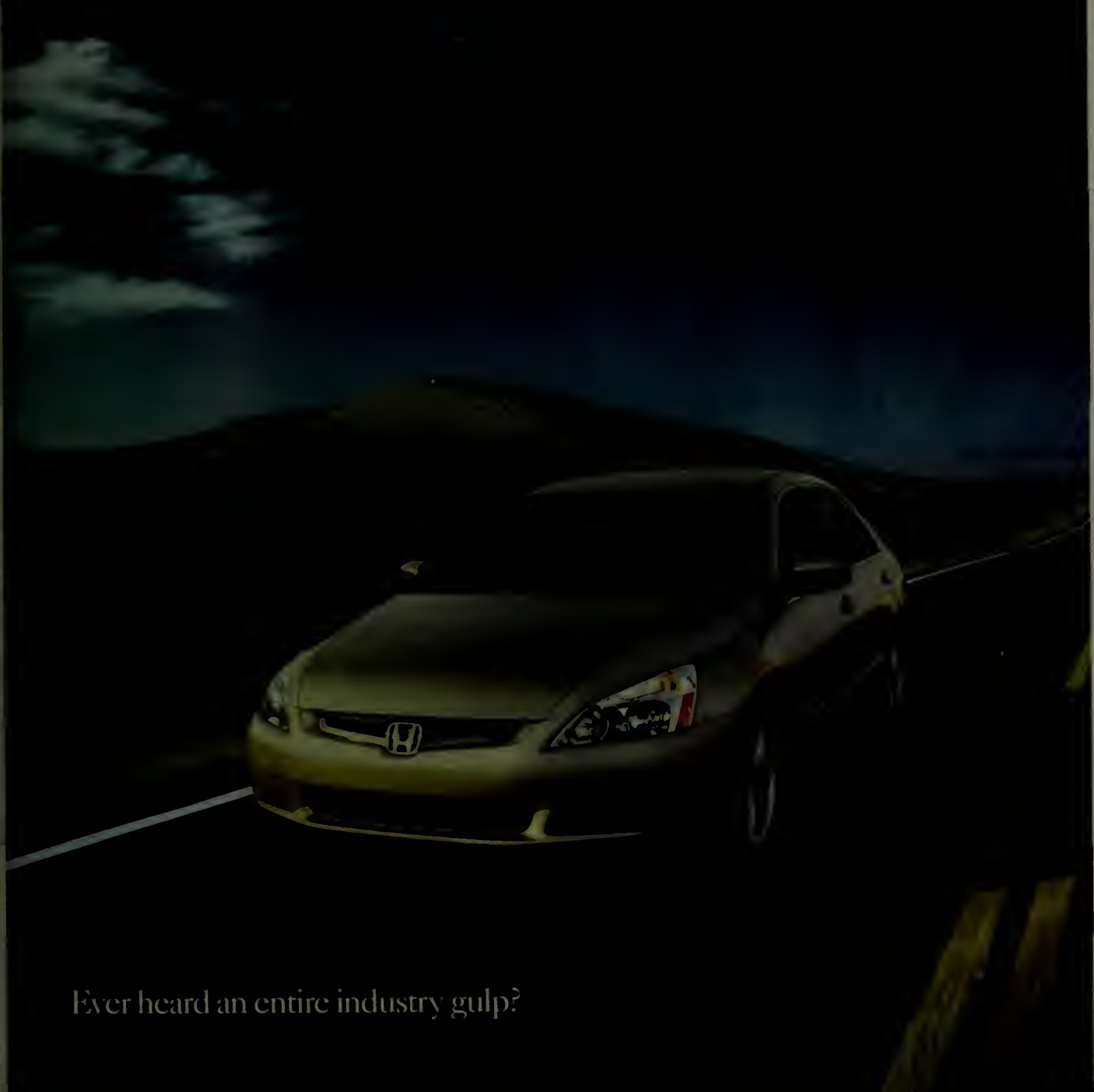
GARY C. WENDT Conseco

Wendt was supposed to be a savior of the troubled insurance and finance company. Instead, he presided over collapse and delisting in August by New York Stock Exchange. Wendt signed on Oct. 3. In mid-December, Conseco Inc. filed for bankruptcy.

STEPHEN M. BENNETT Intuit

With Intuit Inc. thriving as others in techdom fade, Bennett has solidified his reputation and made shareholders a happy bunch. With many of his moves of business coming directly from the GE playbook, it's clear that he didn't leave GE behind.

Every now and then, a car comes along that turns the automobile industry on its head. Invariably, that car is the all-new Accord. It now boasts distinctive European styling, the increased horsepower of an V-TEC engine and amenities usually reserved for luxury automobiles. And while that's good news for car buyers, it's anything but for carmakers.

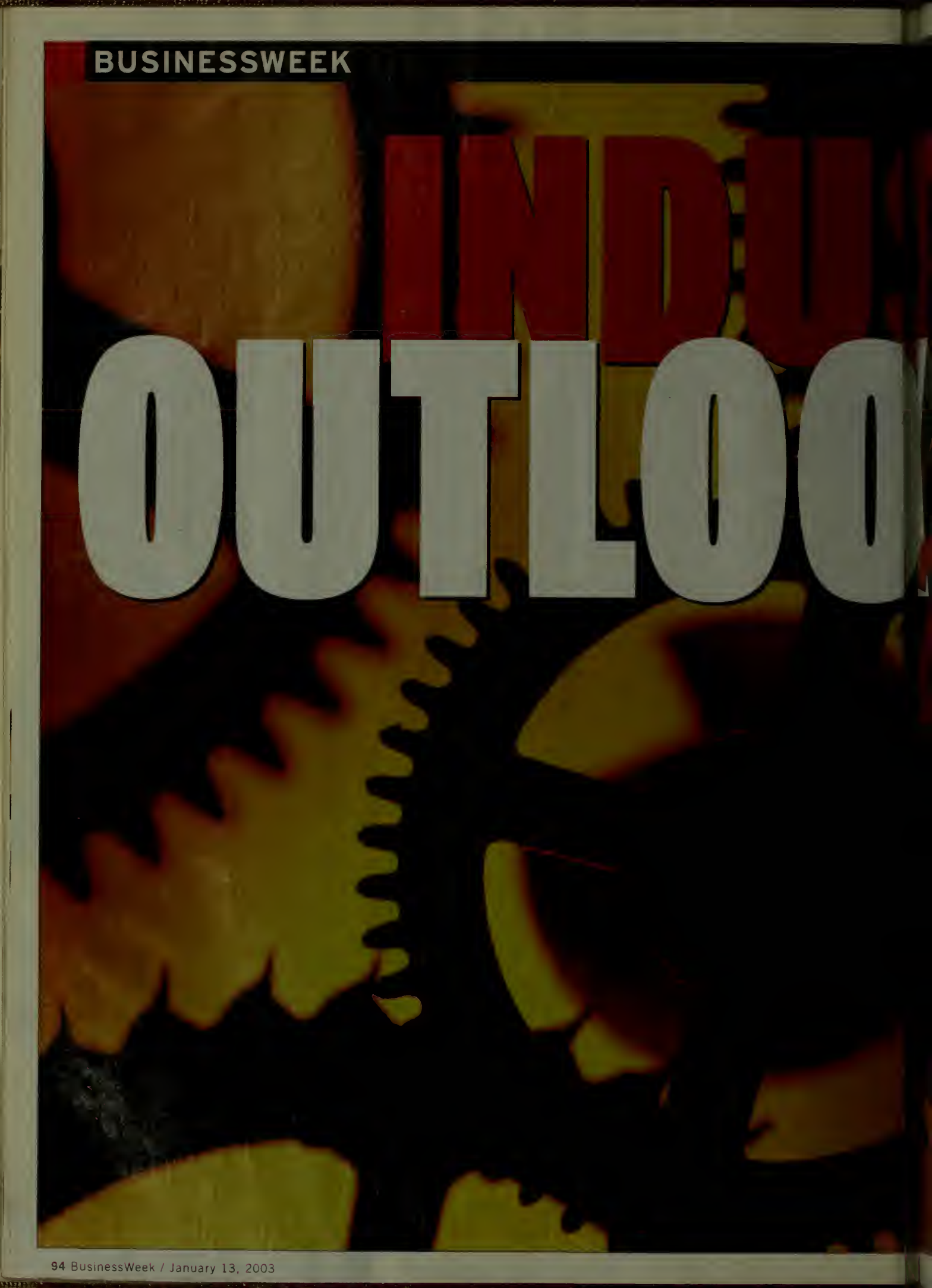


Ever heard an entire industry gulp?

All new. And more Accord than ever.  **HONDA**

BUSINESSWEEK

INDUSTRY OUTLOOK

The background of the cover is a dark, textured surface. It features several large, stylized gears in shades of red, orange, and yellow. The gears are interlocking and appear to be in motion. There are also organic, flame-like or cellular shapes in the same color palette, creating a complex, industrial yet organic visual theme.



“ [D]o we have the capability to eliminate booms and busts in economic activity?... The answer in my judgment is no, because there is no tool to change human nature. Too often people are prone to recurring bouts of optimism and pessimism... **”**

—Alan Greenspan

For plenty of industries, the business cycle has been an article of faith. As sure as night follows day, recoveries follow recessions. And certain industries can expect a cyclical bounce in the early stages of a rebound, while others lag behind. But the economy's erratic path lately, and the uneven performance likely in 2003, make such conventional wisdom look ever more dubious. The U.S. today is not only battling terrorism and preparing for war with Iraq but it is also still processing the stimulative effects of go-go Federal Reserve policy, years of productivity gains, and the ongoing shift toward services. As a result, the pattern of recession and recovery across industries has changed fundamentally. “The whole business cycle is different,” says Carl Steidtmann, chief economist at Deloitte Research.

The ways in which sectors behave after recessions have changed, leading to a new cycle of head-scratching

How different? Look at the lackluster recovery we're now in—with gross domestic product expected to rise just 2.9% or so annually in both 2002 and 2003. That's about a half-point below the rate thought to be sustainable, and not enough to reverse the growth in unemployment. Traditionally, cyclical industries should have come rumbling

INDUSTRY OUTLOOK

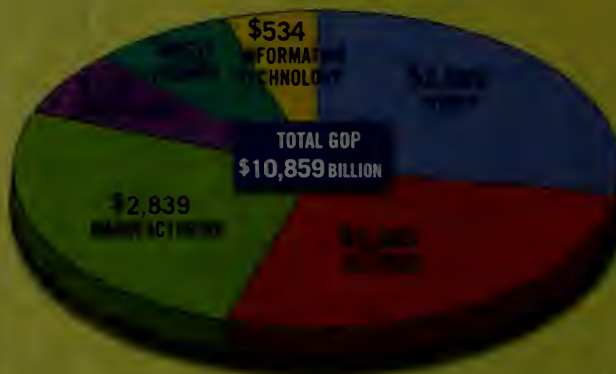
back when the recession slipped into history in December, 2001, or so. That would include manufacturing, transportation, and distribution. Instead, these sectors have stumbled, and will probably keep doing so through 2003. But other cyclicals—housing, banking, retailing, and autos—have proven surprisingly healthy and should keep performing, if not quite as robustly. Meanwhile, traditionally noncyclical industries such as telecom are showing signs of new life after a stunning bust.

The big question, which this year's performance may go far toward answering, is whether these recent economic transformations are permanently altering the cycles for various industries. Aggressive Fed policy, the increased role of the volatile tech sector, stiffened global competition, and the ability of the economy to keep growing by cutting costs all are working to strip the cyclical out of some industries—such as housing and some finance markets, including mortgage and credit-card lending. Yet at the same time, the stock market is marching to its own rhythm. It's no wonder businesspeople in both well-performing and struggling industries are scratching their heads, wondering whether the new patterns are here to stay. "You see increases in productivity in a downturn—a very unlikely situation," says Philip M. Condit, chairman and CEO of Boeing Co. "It is enormously different."

Credit the topsy-turvy recovery in part to Alan Greenspan's Fed. The central bank's dozen interest-rate cuts over the past two years have propped up sales of everything from autos to big-screen TVs, as easy credit has kept consumers buying. The magic of 0% financing hasn't translated into profits for hypercompetitive Detroit, to be sure, but it has kept cars moving out of showroom doors at a healthy

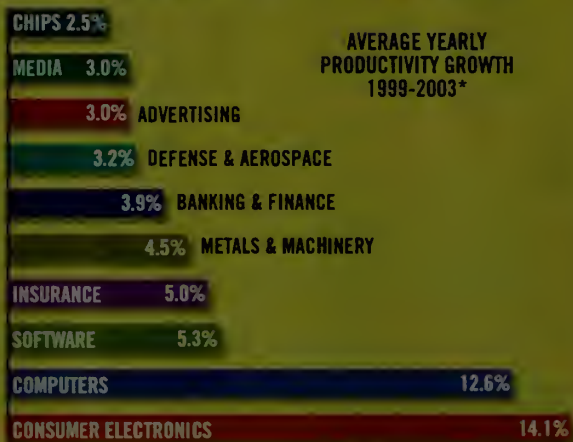
NATIONAL OUTPUT

CONTRIBUTION TO GDP, 2003 ESTIMATE (IN BILLIONS)



Data: Economy.com Inc.

PRODUCTIVITY CHAMPS



Data: Economy.com Inc.

*2003. ESTIMATE

LEADERS

DRUGS Promising new treatments will arrive in '03, along with more consolidation

CONSTRUCTION Homebuilding will be strong, if not stellar

ADVERTISING Ad sales will rebound, led by TV

SOFTWARE Corporate customers are spending again but focus on a few large suppliers

LAGGARDS

TRAVEL Fliers remain grounded and another bankruptcy looms

AUTOS Cheap credit may keep sales rolling—and foreign brands will gain ground

METALS Steelmakers will suffer from falling prices

ENERGY Political risks will breed price volatility

DATA GUIDE

Each of the Industry Outlooks on the pages that follow provides performance and forecast. Here is a guide:

clip. Retailers and credit-card companies are keeping the spending spree going, despite climbing bankruptcy and credit-card delinquency rates. "Consumer-oriented industries have fared well," says Mark M. Zandi, chief economist at Economy.com Inc., a consulting firm in West Chester, Pa.

Monetary policy alone isn't driving the consumer binge, however. Even as they pile on the red ink in Washington, the Bush Administration's tax cuts and open-wallet policies on defense and homeland security are keeping plenty of cash in motion. The new economic team of the reelection-minded President is expected in January to lay out a \$40 billion tax

MANUFACTURING

99 Energy won't have much energy, and building won't soar. Even defense, with all the war rumblings, looks a bit slack.



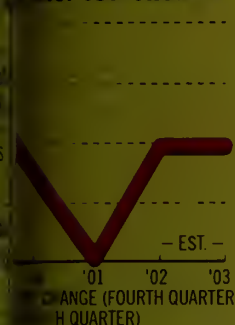
FINANCE

109 For banks, it's proving best to play it safe and stick to Main Street. For insurers, it's one disaster area after another.

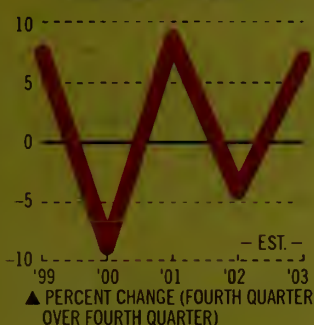


THE OUTLOOK BY THE NUMBERS

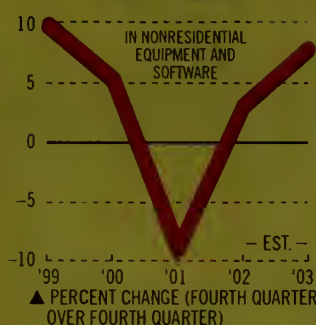
U.S. GDP GROWTH



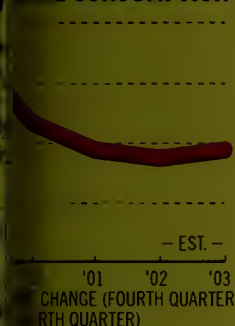
CORPORATE PROFITS



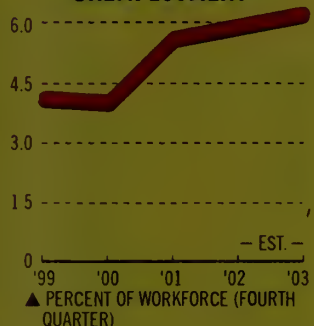
INVESTMENT



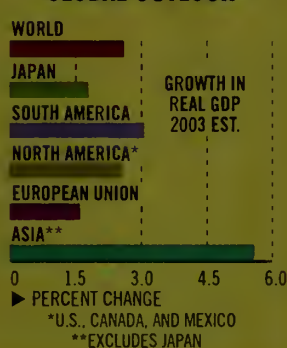
REAL CONSUMPTION



UNEMPLOYMENT



GLOBAL OUTLOOK



POINTS show industry performance by selected metrics, 3.

PROSPECTS BW has given each industry a grade on growth and other factors.

OUTPUT GROWTH Gives economy.com's forecast of change in the value created by each industry. Unlike a measure of revenue, this "value-added" approach avoids counting the same sales twice.

OUTPUT For each industry, this figure projects the nominal value created.

EMPLOYMENT A broad measure of the total number of workers in each sector in 2003.

\$50 billion package of more tax cuts, new incentives for individual savings and investment, and a tax break for business to pump up so-far disappointing capital spending. The optimists in the White House even say lethargic sectors could air and drive growth up as much as 4% in 2003.

Problem is, such Beltway bullishness hasn't been able to get some key industries—long thought cyclical—off the time. The slump in manufacturing, for one, predates the recession that began in March, 2001, and is likely to linger. Despite protections engineered by the Bush Administration, shipments by U.S. steelmakers rose a paltry 2% in

2002, and industry analysts say they may contract as much as 1% in 2003. Hard-pressed manufacturers are hoping capital spending by businesses—which shrank for six quarters until the spring of 2002—keeps turning around. But prospects are dicey: A recent Goldman Sachs survey shows capacity utilization is the lowest since the 1982 downturn. That's why CEOs such as Lewis B. Campbell of Providence-based Textron Inc. remain gloomy. Campbell, whose diverse businesses range from aircraft construction to golf equipment, says 2003 "is going to be another tough year. We are not seeing any indications of significant near-term improvement in the general industrial manufacturing environment."

By contrast, builders of new housing can't keep up with demand—and are likely to see only a modest ratcheting down in 2003. The Fed's help, combined with a surge in demand from relatively well-off immigrants and those not affected by rising unemployment, has kept the appetite for housing strong. Sure, stock market declines have made high-end homes less attractive, but moderately priced housing is still hot. "The builders made mistakes," says Anirvan Banerji, director of research at the Economic Cycle Research Institute, a think tank and commercial research firm. "All of a sudden they realized they had been underbuilding like crazy."

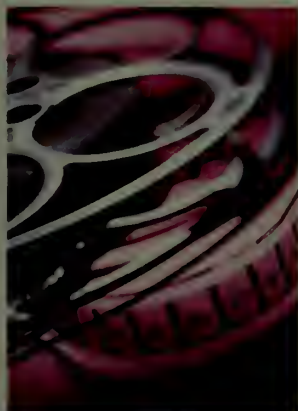
Still, for a big share of the economy, cyclicality is just not an issue. Health care will generally stay robust as the population ages. And in a time when war seems likely and security is a growing worry, too, defense contractors can expect some gains in 2003.

The patterns of growth and decline surely will differ this year, as they have in every recovery or downturn. And as more parts of the economy rise and fall with their own unique rhythms, the traditional business cycle increasingly may look, if not dead, at least so 20th century.

By Joseph Weber, with Michael Arndt, in Chicago, Heather Green in New York, and bureau reports

TECHNOLOGY

123 Software may firm up next year, and chips chipper. But there's no joy for printer makers and e-commerce companies.



SERVICES

123 Travel is going nowhere and transportation is in low gear. One bright spot, though, is a possible rebound for advertisers.



LIFE SCIENCES

131 Helped by new treatments, drugmakers will start to feel better. Health care is poised for growth, but it's a risky proposition.



It's all the computers you need.

Introducing one computer that works like more than one: the Compaq Tablet PC. Connect it to its optional dock and it's a desktop. Attach the included keyboard and it's ready to go as a laptop. Or write right on the screen and you can create editable documents without a keyboard at all. To find out how \$1,699* can get you the computer that adapts to your work environment, call 1-800-888-8129 or visit www.compaq.com/tabletpc/ad.

When it really matters, choose Compaq.

The Compaq Tablet PC.

COMPAQ

© 2002 Hewlett-Packard Company. *Estimated U.S. retail price. Actual prices may vary. Shipping, handling and taxes not included. Docking station sold separately. Microsoft® and Windows® are U.S. registered trademarks of Microsoft Corp.



Write on it.



Type on it.



Dock it.

MANUFACTURING



- **Construction**
- **Energy**
- **Autos**
- **Defense & Aerospace**
- **Metals & Machinery**



CONSTRUCTION: A LITTLE LESS SOLID

■ Homebuilding will slow a tad but still reach a **near record**

■ On the commercial side, **vacancy rates will rise** and new projects will stall

Once sizzling hot, the residential-construction market shows signs of cooling off in 2003. Builders everywhere are relearning caution. Wilson Construction Co., which typically has at least four reservations to build posh, multimillion-dollar custom houses in the resort town of Sun Valley, Idaho. This year, it has two. And in Chicago, LR Development Co. is build-

ing 294 luxury condos downtown, some with jaw-dropping views of Lake Michigan. But rather than fetching \$1.5 million, as they might have a couple of years ago, only a few of the units will top \$1 million this year. "It's time to set expectations a little bit lower," says LR President Thomas O. Weeks.

Not too much lower, though. The outlook for homebuilders in 2003 re-

mains strong—just not as stellar as in 2002. Last year, housing starts hit a record 1.69 million, a 6% jump over 2001, according to the National Association of Home Builders (NAHB). Construction "put-in-place" reached \$336 billion, according to the Commerce Dept., another record. The pace was fueled by irresistible interest rates: The 30-year fixed mortgage rate dropped from 8.1% in 2000 to less than 6% in December.

Things will come back to earth this year. The NAHB expects 1.63 million units to be built in 2003, the second best ever, but still off

3.5% from last year's all-time high.

Will this modest pull-back hurt? Residential construction was, after all, a big boon to the economy. New construction pumped hundreds of billions into the gross domestic product and a huge wave of refinancings contributed \$100 billion. The refis gave consumers the money to remodel homes, pay off loans and buy retail products. David F. Seiders, the NAHB's chief economist, estimates that rates will climb to 6.5% by yearend though. With that rise, refis could add less than \$7 billion to GDP this year, h



ays. "Don't look to housing to be a major growth engine," Seiders warns. A bigger hammer has fallen on commercial construction. In 2001, the peak year for office-building, developers completed 8 million square feet of new space in the 20 biggest U.S. markets, according to Porto Wheaton Research. Last year brought 42 million square feet, and the forecast for 2003 is just 22 million. Most other nonresidential building sectors, including warehouses, hotels, and retailing, will continue to shrink some more in 2003, forecasts McGraw-Hill Construction, which like BusinessWeek is a unit of the McGraw-Hill

Cos. The exceptions: Developers are still busy putting up more hospitals, clinics, and schools.

That plunge has doused other suppliers and industries. Outlays on all nonresidential structures have dipped a record 20.9% over the past year, spreading pain across many other sectors. Steelmaker Nucor Corp. and office-furniture producer Steelcase Inc. complain that the downturn is cutting into earnings. All told, estimates Richard Berner, chief U.S. economist for Morgan Stanley, the construction industry's contraction has sliced 0.7% off GDP in a year. And going forward, "it's going to be a cold 9 to 12 months," warns Kenneth D. Simonson, chief economist for the Associated General Contractors of America.

Construction industry financiers present a mixed picture. Large, financially stable builders such as Denver-based MDC Holdings Inc. and Pennsylvania's Toll Brothers Inc. had no problems raising hundreds of millions of dollars from debt

offerings last fall. So clearly, "the window has opened a bit," says Robert Curran of Fitch Ratings. On the other hand, apartment vacancies are rising—from 8% in 2000 to a projected 8.8% this year—as renters look to buy. That will make it difficult for multi-dwelling builders to land financing, explains Sung

Won Sohn, chief economist at Wells Fargo & Co.

Make no mistake: Homebuilding of all sorts remains the construction industry's saving grace.

Housing jobs have held construction-industry employment steady at 6.5 million. Builders are adjusting to the demands of a more value-oriented customer, making more modest houses even if they have to spend more money. Rather than invest \$3 million to \$4 million to build a handful of \$1.5 million houses in Silicon Valley, Pulte Homes is investing \$7 million to build a mix of \$300,000 to \$400,000 lofts and town-

homes in San Jose. Similarly, Dallas-based Centex Homes is boosting the number of entry-level homes it will build in cities such as Atlanta and Indianapolis. "The high end is not an area you want to be playing in at the moment," says Centex CEO Andrew J. Hannigan. Yet even without the high end, housing's hot run won't be put on ice.

By Roger O. Crockett
with Michael Arndt in
Chicago

COMMERCIAL BUILDING

NO OFFICE PARTY THIS YEAR

Two years ago, Webcor Builders Inc. was one of the busiest general contractors in Northern California, with projects in the works for many of Silicon Valley's biggest names. One by one, however, the developments were scaled back or canceled as demand for office space plunged. Webcor still has a couple of big projects in San Francisco. But with vacancy rates topping 20% in San Jose, it is making ends meet by moonlighting as a concrete subcontractor for public-works projects. "Commercial building has practically stopped," says Webcor President and CEO Andrew J. Ball.

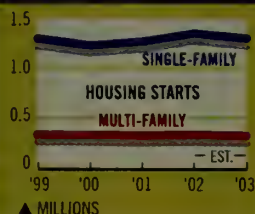
Another object lesson from the dot-com bust? Not entirely. All across the U.S., office markets are in deep trouble. Vacancy rates have leaped most significantly in high-tech centers, such as Austin, Tex., suburban Boston, Seattle, and Silicon Valley. But they also exceed 20% in Atlanta, Columbus, Ohio, Dallas, and Salt Lake City—and are in double digits in New York, Chicago, and every one of the top 10 markets except Washington, D.C., where the federal government acts as a buffer. It's the worst period since the 1990-91 recession. Rents, meantime, are sliding.

So when will commercial building rebound? Not until office-sector payrolls rise steadily by at least 1% for 12 months or more and companies begin refilling all the space they've emptied in the past couple of years, says Richard D. Kincaid, chief financial officer of Equity Office Properties Trust, the nation's biggest office landlord. He doesn't see that happening before 2004. Until then, he adds, "It doesn't make any sense to build." Note to contractors: This might be a good time to brush up on other skills.

By Michael Arndt in Chicago



SPOTLIGHT



Data: National Association of Home Builders

GROWTH PROSPECTS

B- OUTPUT GROWTH **2.7%**

OUTPUT \$1,936.6 BIL.
EMPLOYMENT 9,543,000

Economy.com, 2003 projection; BusinessWeek

ENERGY: A BARREL OF 'IFS'

■ Rising political risks, including war, are likely to mean **volatile prices**

■ Big energy companies will put more **investment chips on projects outside the U.S.**, in Russia and maybe even Iraq

Energy company chiefs have an even trickier task than usual when planning for the coming year. The possibility of a war with Iraq puts a huge question mark over

both supply and prices. And striking oil workers in Venezuela have further clouded the outlook.

Many forecasters were betting that the Organization of Petroleum Exporting Countries' three-year winning streak of high prices would come to an end in 2003. But the Venezuelan strikers may delay OPEC's comeback, just as tensions over Iraq did in 2002. At yearend, the problems of South America's biggest oil producer were taking 2.5 million barrels per day off the market. That's equivalent to the spare capacity of Saudi Arabia, the only OPEC member with ample slack. The re-

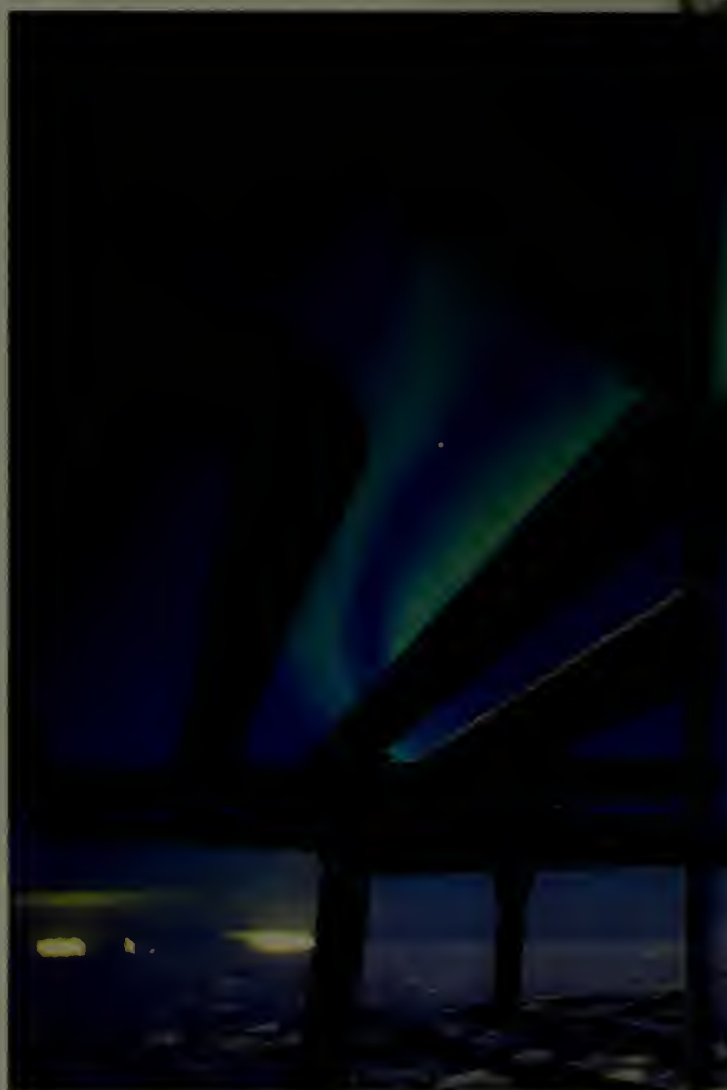
sult: Oil prices bumped back above \$30 per bbl.—and they're threatening to stay there.

Still, Adam Sieminski, an analyst at Deutsche Bank in London, thinks prices for

2003 will average about \$21.50 per bbl. The reasons for the drop: weak global growth in demand of only about 1 million bbl. per day, plus increased production outside of OPEC, notably from Russia. These forces are pruning OPEC's market share. And consuming countries such as the U.S., which have been paying an average

of \$25 or more for oil for the past two years, could get a break.

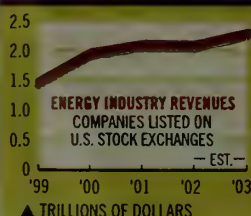
But with so much uncertainty in the OPEC lands, it may be foolish to bet on prices at all. And the Venezuela strike may roil markets for weeks or months. The situation in



Iraq could create more serious turmoil. If the U.S. goes to war, the crucial question is whether the war will end soon or if it will be a slow, messy fight. If Saddam Hussein is toppled quickly, there will be little spillover into nearby oil giants like Saudi Arabia and only a mild price spike, pre-

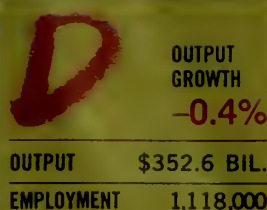
dicts Washington energy consultancy PFC. Less likely scenarios include disruption of supplies from Iraq's neighbors, Kuwait and Iran. Even assuming Venezuela's strike is resolved, that could send prices into the \$40 range. A Middle East regional war embroiling Saudi Arabia and its oil fields

SPOTLIGHT



Data: Economy.com Inc.

GROWTH PROSPECTS



Economy.com, 2003 projection, *BusinessWeek*

AUSTERITY

POWERING DOWN IN LOW-WATTAGE TIMES

The \$218 billion power industry may have hit its nadir, as does Enron Corp., once the largest trade former highfliers such as Dynegy, AES, and Calpine are ing to stay solvent, while consumer advocates and politicians call for stiff penalties against power executives.

The business has faced crises before. During the 1920s, utilities were go-go stocks, notes Jonathan W. Gottlieb, a u



might send prices into the stratosphere.

Whatever prices do, companies are under pressure to boost returns. They've squeezed about all the gains they can from big acquisitions such as BP PLC's takeovers of Amoco and ARCO in 1998 and 1999 and Exxon's 1988 gulp of Mobil.

So companies are hunting for new sources of profits, and Iraq is an intriguing prospect. Saddam has kept Iraq's reserves of 112 billion bbl., second only to the Saudis', from being developed. If he is ousted, companies will have a shot at gobs of oil—once it is determined who has the rights to these

fields. Saddam has promised huge chunks of reserves to France's Total Fina Elf and Russia's Lukoil in a bid to woo their governments. But Iraqi exiles say U.S. and British companies such as ExxonMobil Corp. and BP can expect to be rewarded if the U.S. and Britain liberate Iraq. Total capacity could be as high as 6 million bbl. a day.

Reaching that level will take five years at least. Assuming that a relatively stable government takes over, service companies such as Schlumberger Ltd. and Halliburton Co. will likely be called in to oversee Iraqi production—now around 2 million bbl. per day. The first task will be to head off a production decline caused by broken and missing equipment and poor reservoir management. Rehabilitating Iraq's oil infrastructure could add 1 million to 2 million bbl. per day in capacity over two to three years, estimates Deutsche Bank's Sieminski.

With Iraq's fate still up in the air, companies are warily eyeing Russia as another rich frontier. In the late 1990s, Western majors could have purchased Russian assets cheaply, says Simon Kukes, president of Russia's Tyumen Oil Co. Since then, the Russians have learned how to raise capital and hire service companies such as Schlumberger. Kukes says the majors may now be largely confined to techno-

logically difficult projects such as Sakhalin Island, where Royal/Dutch Shell Group, ExxonMobil, and others are expected to sink as much as \$18 billion by 2010 into huge oil and gas projects.

Investing outside the U.S. may be risky, but companies increasingly are making exploration and production bets abroad. Total U.S. spending in 2003 is expected to decline by 0.7%, to \$30.3 billion, while spending outside the U.S. will increase about 6%, to \$102.1 billion, according to a survey by Lehman Brothers Inc. in New York. "The U.S. just doesn't hold that much potential for finding major new reserves," explains James D. Crandell, a Lehman oil analyst.

Shell and others are putting billions of dollars into huge natural gas projects, figuring that demand will rise for this cleaner-burning fuel. Most companies, however, are proceeding slowly with alternative-energy plans. BP has a \$12 billion annual investment budget. Yet it is investing just \$500 million over three years in "renewables" such as solar and wind power. At best, predicts the U.S. Energy Dept., renewables will account for 9% of U.S. electricity generation by 2025. Oil and gas are what count for 2003—and for many years beyond.

By Stanley Reed in London, with Wendy Zellner in Dallas

by at Baker & McKenzie. That ended the Depression, when Congress imposed restrictions on the ability of utilities to A boom and bust in the 1960s and brought new reforms aimed at creating competition, such as requiring utilities power from independent power pro- Those changes helped cause today's expansion.

Now, more changes are coming. Federal regulators will continue to investigate charges of gouging. Threats of fines will keep a cloud over many utilities. Washington will also step up its scrutiny of electricity trading, although the business should become less



volatile as control shifts from the original kilowatt cowboys to banks and Wall Street.

The march to deregulate has clearly slowed. Meanwhile, retail electric rates—which have continued to rise in spite of deregulation—will likely stay high, both to pay for high-price power purchased during the crisis and to cover the rising cost of natural gas.

Banks and bondholders that financed the more aggressive companies will restructure those debts. Utilities will retrench, selling out-of-state power projects. And as they focus back on local territories, they'll start to look more like their stodgier pre-deregulation predecessors.

By Christopher Palmeri

AUTOS: HEADING INTO THE SLOW LANE

■ Detroit will keep dishing out **incentives**

■ Pension and health-care worries will add **tension** to next fall's union contract talks

Carmakers expect to tap the brakes in the coming year, but sales won't screech to a halt. Detroit's greatest pain will likely be its continuing loss of market share to foreign players. And short-term efforts to reverse the slide by ramping up production and offering additional costly sales incentives will put a drag on profits.

Industry insiders look for U.S. sales of new cars and light trucks in 2003 to total roughly 16.3 million units—down about 2% from last year. While still a healthy level by historical standards, that would mark the third year of decline from a record 17.35 million units in 2000. “We all expect something of a slowdown,” says Chrysler Group CEO Dieter Zetsche. “But nothing too dramatic.”

Manufacturers based in Asia and Europe have a rosier view. As Japanese auto makers, in particular, extend the popularity and premium-pricing advantages they have in the passenger-car market to their growing lineups of minivans, pickups, and sport-utility vehicles, “the Big Three will lose more share” this year, says Global Insight Inc. analyst Rebecca Lindland. She notes that Detroit's slice of U.S. auto sales shrank in 2002, to 62.8% (in November), from 64.5% in 2001 and 66.8% the year before—with the biggest



declines at Ford Motor Co.

Early evidence suggests that the fight for market share, together with industrywide overcapacity, will lead auto makers to build too many vehicles in the first months of the year. Declining market share has left the Big Three with 2.5 million units of excess annual capacity, according to Fitch Ratings. In North America, domestic and foreign-owned factories are scheduled to build 4.3 million vehicles through March, up 3% from the same period in 2002, according to *Ward's Automotive Re-*

ports. Analysts are especially worried that most of the increase is expected to come in trucks made by both General Motors Corp. and Ford—and that it will exceed anticipated demand. “They’re setting up a game of light-truck chicken,” writes Goldman Sachs Group Inc. analyst Gary Lapidus. The likely out-

come? More rebates and other incentives that will further trim once-lucrative truck profits.

Giant inventories will only increase Detroit's reliance on such lures. Since auto inventories remained high in December—averaging a 77-day supply, up 19% from a year earlier—car makers are expected to continue piling on incentives in 2003 to keep their metal moving. By yearend, average incentives were running \$3,400 per vehicle, according to CNW Marketing/Research Inc. in Bandon, Ore. However, Detroit is running out of new gimmicks to lure customers into dealer showrooms. “What else is left?” asks Wesley R. Brown, analyst at Thousand Oaks (Calif.)-based researcher Nextrend Inc. “But the Big Three have no choice,” he adds. “If they stop incentives, sales will plummet.”

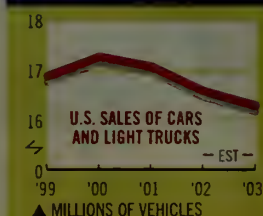
Detroit's top brass also have labor issues to worry about. Heavy pension and health-care costs, a legacy Motown's decades of building cars in the U.S., will continue to drag down the Big Three. Analysts forecast a 22% decline in GM profits, to \$2.9 billion in 2003, largely because of pension costs. Though such costs also weigh on Chrysler and Ford, restructuring should boost profits about 9% at both—to \$3.7 billion and \$890 million, respectively.

Pensions, along with health care, are likely to create more friction this summer when Detroit auto makers start renegotiating their national labor contracts with the United Auto Workers. Plant closings are

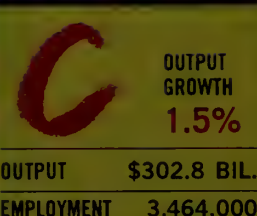
likely to be another sore point. Between war worries this winter and the threat of labor strife next fall, car makers may find 2003 to be a year of living anxiously.

By Kathlee Kerwin in Detroit

SPOTLIGHT



GROWTH PROSPECTS





DEFENSE & AEROSPACE: WAR DOES NOT EVEN WAR WILL EASE

- The commercial airline industry's **painful restructuring** will have two more years to go
- A military buildup will mean significant purchases of **defense software**, not just hardware

Buoyed by big budgets to transform the military for the war on terrorism and rogue nations like Iraq, the defense industry has been one of the few bright spots in the economy. But the terrorism dividend won't be enough to offset the ongoing crisis in commercial aviation, so 2003 offers no prospect of net gains for aircraft builders and their myriad suppliers.

When the Aerospace Industries Assn. touts up total sales expected in 2003 from both military and civilian spending, it foresees a 6.8% decline, to \$138 billion. That's double the size of last year's 3.2% drop, to \$148 billion. The outlook is actually

bleaker for commercial aviation than the numbers suggest, because AIA projects sales to the Pentagon will buck the downward trend and climb \$5 billion higher.

However, that modest boost on the defense side is no portent of a long-term trend. Given the massive swing in federal finances, from a \$236 billion annual surplus two years ago to a deficit of more than \$150 billion now, the proposed fiscal-year 2004 defense budget due early this year will probably call for only a small increase in spending—to about \$379 billion. And after fiscal 2004, Defense Dept. officials don't envision any real increases for the

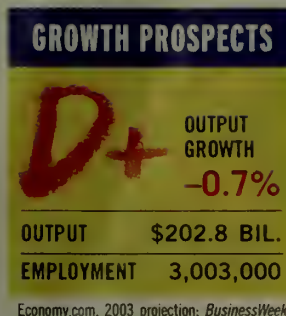
rest of this decade. Pentagon buying power could even diminish, says Loren B. Thompson, chief operating officer of Lexington Institute, a defense think tank. As the 2004 election looms, he predicts, defense money will get "leached away" by Congress.

Short term, aerospace and defense-industry execs cheered the 18% jump, to \$130 billion, for defense modernization in the current fiscal '03 budget. That opens the door to some major new warfighting systems. More money could flow to the White House's mini-Star Wars missile shield. But America's

defense heavyweights are not sanguine about a war with Iraq. They fear it will merely shift spending from the development of new, big-ticket items to the replenishment of munitions and fuel. If investors think that a war in Iraq would lift the

outlook for Boeing, Lockheed Martin, and Northrop Grumman, they need to think again, says Boeing Co. CEO Philip M. Condit. "That is not the case."

So defense companies remain cautious. Last summer, as war clouds were gathering, wary execs did not raise earnings projections for either 2002 or 2003. That



MANUFACTURING

sent shares in major defense contractors tumbling roughly 25%. The drop "may be just the start of water reaching its true level," warns Robert Friedman, an analyst at Standard & Poor's.

Still, the uncertainties in defense pale beside the woes of commercial aerospace. Nearly all airlines are bleeding money, tens of thousands of workers have lost their jobs, and the crisis shows no sign of letting up in 2003. Most U.S. airlines won't be profitable again until 2005, predicts Edmund Greenslet, publisher of *Airline Monitor*, a newsletter. "It takes that long to recover from cataclysmic adversity," he notes.

One casualty of the airlines' struggle will be orders for new planes. Already, surplus aircraft account for 13% of the world's jetliner fleet, the highest percentage ever, according to *Airline Monitor*. And more are apt to get yanked from service. Says Teal Group analyst Richard Aboulafia: "I definitely think you'll see an uptick in the desert air force"—the planes mothballed in the deserts of Arizona and California.

For Boeing and Airbus, the gloom heralds further output declines. AIA expects Boeing to cut production to about 280 airliners this year, down from 380 in 2002. And

Rainer Hertrich, co-CEO of Airbus parent European Aeronautic Defense & Space Co., says that Airbus also may be forced to trim production from last year's 300 planes. Blame that in part on sagging demand in the

year. When everything is tallied, AIA sees world sales of commercial jetliners dropping by 33% this year, to about \$18 billion.

Ask about profits, and it winces. Its forecast falls far short of last year's earnings

SURPLUS AIRCRAFT NOW ACCOUNT FOR A RECORD 13% OF THE WORLD'S FLEET

U.S. In fact, imports of Airbus jets fell in 2002 for the first time in seven years. Nor will exports help relieve Boeing's anguish. While overseas sales of military planes remain healthy, total aerospace exports dipped 5% last year and seem destined to shrink 10% this

of \$9 billion, which was a mere 3.5% gain from 2001 for makers of both commercial and military hardware. So the grief in this sector is far from being over—regardless of what happens in Iraq.

By Stanley Holmes
Seattle, with Stan Crock
Washington

METALS & MACHINERY: IRON STOMACH NEEDED

■ As steel tariffs begin to lose their bite, **steelmakers** will again face falling prices

■ Soft auto sales will vex **machine-tool makers**, but demand for aluminum remains strong

The sluggish economy is dimming hopes in much of the heavy manufacturing sector. While steel prices are unlikely to drop anywhere near the 20-year lows of 2001, demand will weaken. As auto sales slow, so will machine-tool sales. But aluminum makers are likely to forge ahead.

Beleaguered U.S. steelmakers enjoyed a brief reprieve last year. Import-restricting tariffs and a spate

of steel plant closings made for tight supplies and firm pricing. Yet prices have pulled back 4% from the past summer's high in response to softer demand from nonresidential construction. Experts don't see prices falling much further this year, since tariffs will hold imports in check. Consultant Locker Associates Inc. forecasts that shipments by U.S. steelmakers will decline 1% in 2003, after rising 2% in 2002.

More consolidation appears inevitable. Last year, New York financier Wilbur L. Ross Jr. snapped up the assets of bankrupt LTV and Acme Metals and began dis-

cussions with Bethlehem Steel, which is under bankruptcy protection. The move allowed Ross to shed retirement obligations and to access lower-cost capital. As a result, Ross's new outfit, In-

ternational Steel Group, is able to make cold-rolled steel for about a third less than before the reorganization. With dozens of steelmakers still in Chapter 11, more sales are likely.

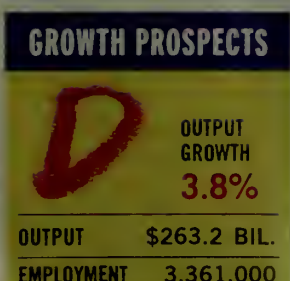
In 2003, U.S.

aluminum shipments will rise by 2% to 3%, roughly matching the rise in 2002. More aluminum in cars and trucks will offset slowdown in vehicle sales, says Jame Southwood, president of Commodity Metals Management. But declining auto production will crimp orders for machine tools, says HC Wainwright & Co. analyst Eli S. Lustgarten. Orders could plummet by 23%, he predicts—and a recovery is at least a year away.

By Robert Berner
Chicago



Data: Locker Associates Inc.



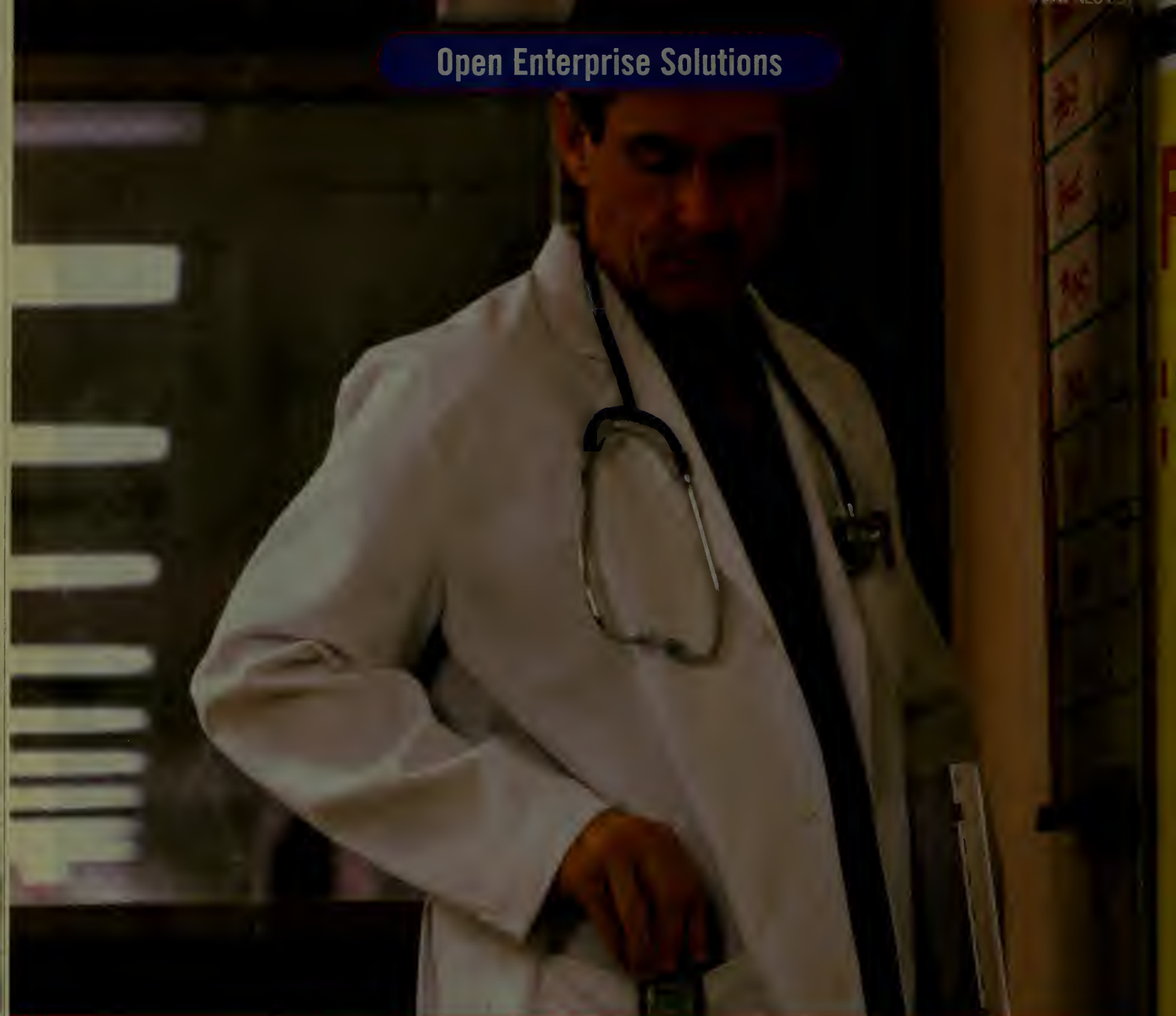
Economy.com, 2003 projection; BusinessWeek



c it grow.

When a big home furnishings business needed financing to expand, they cozied up to CIT, source of lending and leasing for everything from retail to rail. Learn more at CIT.com. We see what you see.





Open Enterprise Solutions

Networks that empower people to perform.

NEC can help take your business to new levels of quality, satisfaction and productivity. With innovative technology from NEC, you can migrate your current network to converge voice and data. Advanced IP telephony from NEC means information can be shared. Access and security controlled. Service enhanced. And costs reduced. All while protecting your investment in your current infrastructure. It's just one more way NEC innovation can empower competitive advantages for your enterprise. From networking, systems integration and custom semiconductor solutions, we empower people through innovative technology. Call 1.800.338.9549 or visit www.necus.com.

Empowered by Innovation

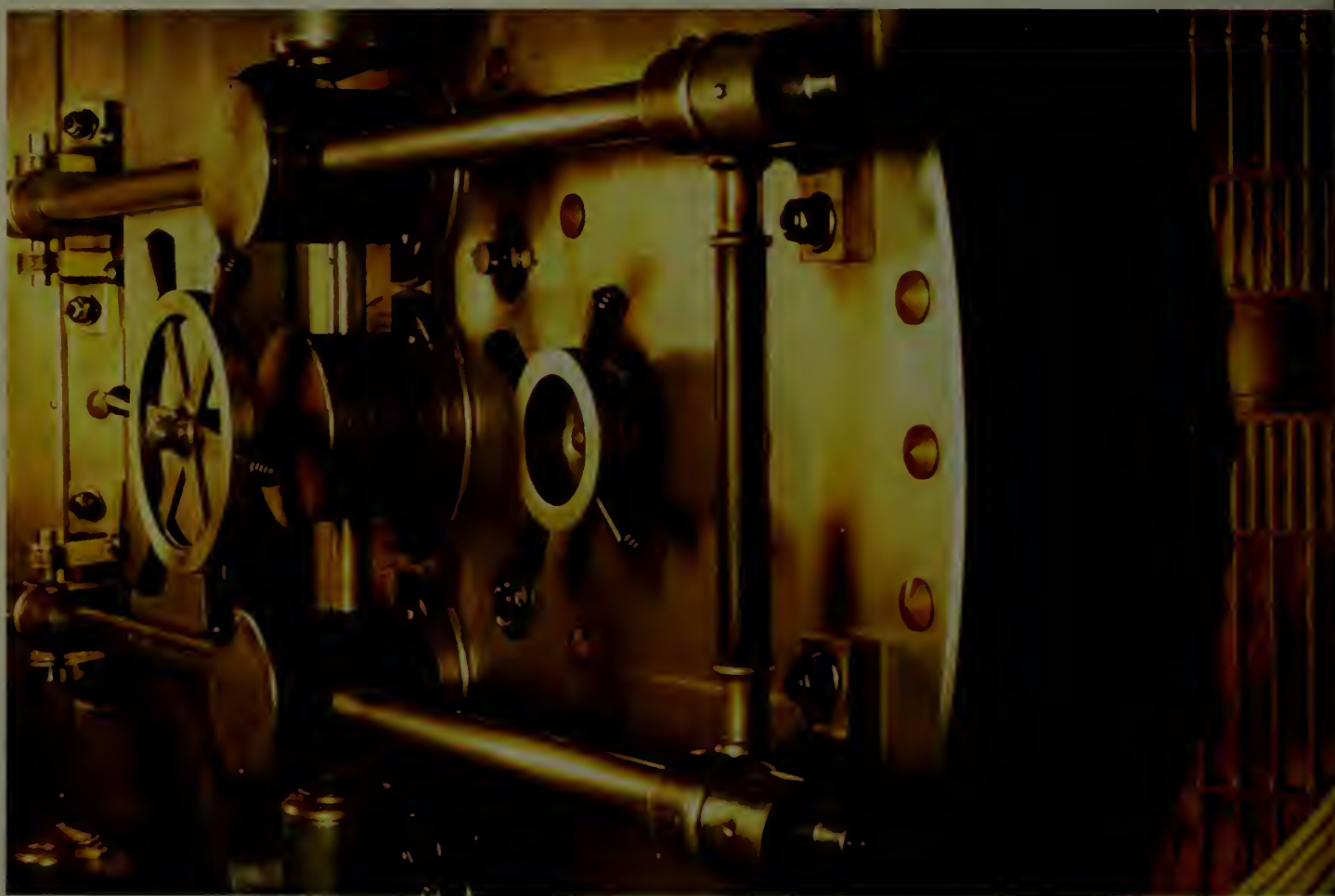
NEC

FINANCE

- Banking & Securities
- Insurance



BANKING & SECURITIES: BACK TO MAIN STREET



■ With the merger and IPO markets likely to remain sluggish, Wall Street layoffs will continue

■ A lack of demand for financial services could trigger a new round of consolidation

During the 1990s, top-tier commercial banks such as Fleet-Boston Financial Corp. and Bank of America Corp. spent billions to expand into the realm of investment banking. Back then, it seemed a sure pathway to lucrative dot-com IPOs, consulting fees, and growth potential for years to come. But investment banking has fallen from grace. As the financial-services sector adjusts to life beyond the boom, tried-and-true commercial banking has proved that it can adapt more quickly.

And once again in 2003, the commercial players will outperform the investment bankers.

Thanks to relentless cost-cutting, the major securities firms have stanchied the bleeding. After a 27% drop in earnings in 2002—which leaves Wall Street profits at roughly a third of their 2000 peak—profits are expected to begin creeping up again in the coming year. Frank A. Fernandez, chief economist of the Securities Industry Assn., expects profits for the 270 member firms of the New York Stock Exchange

to rise 5% to 6% in 2003, to around \$23 billion.

Even that's no given, however. The industry is struggling with an uncertain stock market and the one-two punch of accounting scandal and high corporate debt burdens, which have left the all-important merger and underwriting markets paralyzed. Plus, as part of Wall Street's \$1-billion settlement over charges of misleading research, the 10 largest Wall Street firms must shell out \$450 million to establish a new independent research consortium—an enormous

w overhead. "I think what everybody in the industry is confronting right now is a hangover from the bubble at we all enjoyed in the 1990s and 2000s," says Samuel Molinaro, chief financial officer for Bear Stearns companies.

As for dealmaking, gridlock may be giving way. The volume of mergers and acquisitions has climbed recently, in part because of leveraged buyout activity, and underwriting registrations are up 20% from a year earlier. But even if dealmaking stays strong, it won't return to boom levels. Some firms have responded by looking for profits elsewhere. Some analysts believe Goldman Sachs Group Inc. generates as much as 20% of pretax income from proprietary trading.

At the same time, Wall Street continues to shed workers. Some 75,000 have been cut since the industry hit its peak in 2000. In the process, banks are going back to the drawing board and overhauling underperforming businesses. "Investment banks are figuring out what business will look like in five years," explains Barbara A. Yastine, CFO of Credit Suisse First Boston. By contrast, the commercial banks enter 2003 in much better shape. While some big players such as Citigroup and J.P. Morgan Chase & Co. took their share of hits from soured loans, their robust consumer business made up some of the difference. In all, banks have generated billions in new fee income, thanks to a continued boom in mortgage refinancing plus a related surge in home equity lending. Even so, some analysts are starting to question how much longer the refi boom can persist.

The universal banks also benefited from the stock market turmoil. During the 1990s, banks had to turn to mostly brokered deposits for funding as loan demand

grew faster than deposits on hand. But with investors now bailing out of stocks and pouring money into safer bank accounts, bank funding costs have dropped from 4.59% in late 2000 to an average of 2%. That wider spread helped fuel a 27% bump-up in bank profits in 2002, to \$42.6 billion, according to U.S. Bancorp Piper Jaffray analyst Andrew B. Collins. For 2003, he anticipates a further 16% gain.

There's no guarantee that the banks' good luck will last. The biggest question is whether consumers can continue to juggle their already heavy debt loads, particularly if unemployment keeps rising. Some banks are al-

ready reining in their lending practices: After suffering \$232 million in losses from home-equity loans, Chicago-based Bank One Corp. tightened its home-equity loan standards, deciding to cease buying home equity loans from other lenders. Banks are taking on more risk by holding onto more of the mortgage and auto loans they originate, rather than selling them off to Wall Street investors. That should boost profits, but it also subjects the banks to greater losses if these borrowers default. "It's a significant change in their business model," Collins notes.

Loan pricing is expected to get tighter too, which will

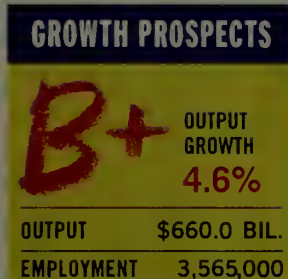
pinch banks' margins. Some bankers also fear that as they scramble to compete for the few companies that do want to borrow, a new round of credit problems will ensue. "There'll be a tendency to be aggressive with lending standards, and bad loans will be made," warns David A. Daberkof, CEO of Cleveland-based National City Corp.

Still, after years of envying investment banks, many lenders have decided the traditional banking biz ain't so bad after all. After writing off much of the \$1.2 billion purchase price of Montgomery Securities, BofA's new CEO, Kenneth D. Lewis, has sworn off any more big Wall Street deals. "There's too much of a culture clash," he says. Instead, he plans to spend \$1.4 billion to open 550 new branches over the next three years. Banks have concluded that businesses with no deposits may also have no returns.

By Dean Foust in Atlanta, with Heather Timmons and Emily Thornton in New York



Data: Securities Industry Assn., U.S. Bancorp Piper Jaffray



Economy.com, 2003 projection; BusinessWeek

FINANCIAL MARKETING

FOR BANKS, MONEY ALSO TALKS IN SPANISH

Up until now, the financial institutions of choice—or necessity—for many of the nation's 35 million Hispanics have been the sort of check-cashing storefronts that charge fees of as much as 20% to wire money back home. But that's changing. Banks and brokerage firms are scrambling to cater to this fast-growing group and to grab a slice of the \$580 billion in purchasing power it controls. Marketing to the fast growing ethnic population "might be the single biggest opportunity for growth in the consumer space," says Kenneth D. Lewis, chief executive of Bank of America Corp. In early December, BofA paid \$1.6 billion for a 24.9% stake in Mexico's Santander Central Hispano as part of this broader strategy.

BofA is not alone. Multilingual ATMs, tellers, and phone reps are increasingly common. Wells Fargo & Co. and BB&T Corp. now accept Mexican ID cards from undocumented workers to open certain accounts. Citigroup, which in May, 2001 paid \$12.5 billion for Banamex, a leading Mexican bank, now offers a Banamex credit card in the U.S. Merrill Lynch & Co. and FleetBoston Financial Corp.'s Quick & Reilly Inc., among others, are trying to attract Spanish-speaking brokers and customers.

It remains to be seen if this new marketing push makes long-term financial sense. Citibank suffered huge losses in Latin America in the 1980s following a severe Latin American debt crisis that required U.S. intervention. Past forays into Latin America by U.S. banks "haven't been great," says bank analyst Nancy Bush. This time, though, the action's at home.

By Dean Foust



INSURANCE: SO MANY DISASTER AREAS



■ **Industry reserves** haven't recovered from 9/11 payouts, market losses, or corporate defaults

■ **Corporate scandals** will result in more costly commercial coverage this year

Insurers haven't had it this bad in years. In 2002 alone, payouts for damage caused by the September 11 attacks totaled \$40 billion. Lawsuits related to asbestos and hazardous-waste sites have been rising, bumping up claims costs. And with financial markets weak, insurers that expected big returns from their huge portfolios have been disappointed.

"I've never seen anything close to the disarray among insurance carriers today," says Michael D. O'Halloran, chief operating officer of Aon Corp., the world's second-largest insurance broker.

The industry won't suffer

quite so much going forward—earnings may even revive this year. The one certainty is that insurers will roll out another round of double-digit premium increases across the board.

Commercial property-and-casualty insurers are likely to roll out the biggest rate hikes. Any business facing large liability risks—from the contamination-prone meatpacking industry to large Wall Street firms open to shareholder lawsuits—will see a repeat of last year's 20%-to-50% premium increases. Then there are the casualty insurers that offer coverage for directors and officers (D&O), protecting the personal assets of executives

in securities litigation. This group could boost premiums by up to 500%. Chubb Corp., for example, is raising its rates sharply after losing \$1.16 on every \$1 of D&O premiums it collected in the first nine months of 2002.

The rate hikes will help insurers cover the settlement costs from corporate fraud cases involving the likes of Enron Corp. and WorldCom Inc. And as stricter corporate governance measures take effect, shareholder class actions will proliferate. CEOs, for example, are now required by law to attest to the validity of their companies' financial statements. "There's so much anxiety over lack of

ers, the large entities such as Swiss Re and Munich Re that primary insurance carriers buy coverage from to reduce risk, have upped their rates to recover capital reserves depleted by large September 11 claims and stock market losses. Munich Re had to infuse \$2 billion into its American Re unit. General Electric Co.'s Employers Re expects a 2002 loss of up to \$450 million and is not optimistic about 2003. In this environment, analysts anticipate a flight to quality. That could bring a lift to Warren E. Buffett's well-capitalized General Reinsurance Corp., among others.

Health insurance is expected to creep up an additional 15% next year as medical costs continue to rise, along with malpractice claims. And life insurers have their own problems. In September, Fitch Ratings downgraded 35 life insurance companies because poor financial returns had reduced their net income and taken a heavy toll on their capital bases. These companies are expected to see lower incomes that could translate to higher life insurance premiums in 2003.

In the personal lines, high premiums will hit consumers again this year, though the increases won't be as drastic as in the commercial arena. Drivers can expect relatively modest premium increases,

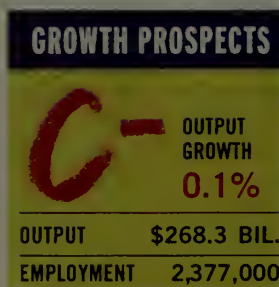
on the order of 6% to 12%, for car coverage. Homeowners, however, might see hikes of up to 15%. The reason? Unexpectedly high disaster recovery costs from October's Hurricane Lili and tornadoes that

swept across the nation in November. Homeowners and insurers alike are hoping the string of such costly catastrophes won't be repeated in 2003.

By Pallavi Gogoi
Chicago



Data: A.M. Best



Economy.com, 2003 projection; BusinessWeek

D&O coverage that prices are bound to increase," says Christopher McShea, Ernst & Young's national director in property-and-casualty actuarial services.

The pricing pressure is starting at the top. Reinsur-

See inside

BusinessWeek online



Now online: names, ranks and telephone numbers.

At last, the information you need to access America's top companies is available for purchase at BusinessWeek Online. That's where you'll find expanded versions of our BW 50, Hot Growth Companies and IT 100 scoreboards. So, if you're a marketer looking for contacts, you've come to the right place.



Go www.businessweek.com/bwlists



The Spring 2003 Executive Education & MBA Directory

Call now to reserve space in the BusinessWeek's widely-read 2003 Executive Education & MBA Directories. Promote your upcoming programs to a highly targeted audience in this response driven environment.

"Advertising with BusinessWeek has significantly increased our exposure to top global business executives. The additional awareness produced by our advertising with BusinessWeek has delivered generous leads that have contributed to the growth of our organization."

-Ethan Hannabry

Associate Dean, Columbia Business School Executive Education

Issue Dates:	March 17, 2003	October 20, 2003
Closing Dates:	January 27, 2003	August 25, 2003

Telephone: 1-800-424-3090
Fax: 1-312-464-0512
E-mail: patrice_serret@businessweek.com

Reserve Space Now!

The McGraw-Hill Companies

BusinessWeek

www.businessweek.com

INFO TECH

■ Software ■ Computers
■ Chips ■ Telecom
■ Consumer Electronics



```
111
010
111 110
0011101
011 0101
100111011
0110011101
011001010
001 10110
0 10011101
1011001 10
1001110110
```


SOFTWARE: GETTING ITS GROOVE BACK

- Sales of **integration software** will surge as corporations tie together old systems
- Corporate buyers are **centralizing their spending** around a few big software vendors

Jack R. Corrie has a New Year's resolution that boils down to one word: Simplify. As division chief of information technology services for the giant California Public Employees' Retirement System, Corrie has tired of managing software from dozens of different suppliers. So he's trying to concentrate his purchases on database giant Oracle Corp.—pushing the cost of integrating the software out of his own budget and into Oracle's lap.

In some ways, this is like buying a car rather than the

parts to build one. And it's thinking like Corrie's that is reshaping the software business, which is slowly emerging from two straight years of gloom. In 2003, analysts expect that sales of all types of software, from graphic art programs for PCs to huge financial systems for corporations, will return to a semblance of health. It won't be the double-digit growth people got used to in the late 1990s. But market researcher IDC Corp. now estimates that worldwide packaged software sales will increase 6.3% this year, to \$194 billion.

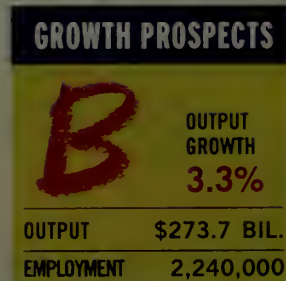
Any growth would be a welcome change. The software industry grew less than 1%, to \$182 billion, in 2002, according to the latest IDC estimates.

And other than niches like security software and so-called business-intelligence software, which analyzes data, no sector did particularly well. The entire market for corporate software grew less than 1%, to \$74.9 billion, according to Gartner Group.

Topping most chief information officers' wish lists this

year: technology that he older software programs work well together. "As you talk to CIOs, you hear they've accumulated an

ful lot of technology over the last 12 years," says Rick Sherlund, managing director at Goldman, Sachs & Co. "Their top priority is cost-cutting. After that, integrating it all together." Sales of integration software are expected to grow twice as fast as the rest of the market, \$8.96 billion



Economy.com, 2003 projection; BusinessWeek



panies—once presciently dismissed by Oracle CEO Lawrence J. Ellison as “features, not companies.” BroadVision Inc., for instance, is deeply troubled. Sales of e-commerce software are expected to drop 8%, to \$1.2 billion, this year, down 45.6% from a \$2.23 billion high two years ago, according to Gartner.

Winnowing the field is just fine with customers. Recent surveys of technology buyers show they want just a handful of suppliers. It simplifies the buying

process, helps them eliminate expensive integration projects, and leads to volume discounts. Corrie of CalPERS believes consolidation is a sign the software

industry is growing up. “It happened with the railroads, automobiles, telecommunications, and every other industry—and now we see it in the technology industry,” he says. “That’s not necessarily a bad thing.”

In some specialized application areas, smaller companies will continue to thrive. Sales of security software, for example, are expected to continue their steady growth, up 11% this year, to \$4.9 billion, according to Gartner. Sales of design and engineering software are expected to climb 9% this year, to \$9.7 billion. And, after jumping 9% in 2002, sales of business-intelligence software will increase 8% this year, to \$2.81 billion, according to Gartner.

In the long run, however, the number of viable niche software markets will keep shrinking. Three years ago, among the big software companies, only IBM sold integration soft-

ware. Now they all do. “The definition of a defensible niche will keep moving as the larger software companies conclude that they can do that, too,” says Craig Conway, CEO of PeopleSoft Inc. Of course, he jokes, if security market leaders such as Symantec Corp. were available for a few hundred million dollars, rather than a few billion, he would buy them in a heartbeat.

Across the larger landscape, Microsoft Corp.—the biggest of the big—will continue to dominate, with planned new releases of everything from its Office desktop productivity suite to a new corporate database. Analysts expect Microsoft revenues to increase 15%, to \$32.6 billion, for the fiscal year that ends June 30, while operating income hits \$14.4 billion, up 21%. Some things never change.

By Jim Kerstetter in San Mateo, Calif., with Jay Greene in Seattle

STARTUPS

MR. SMALL FRY GOES TO WASHINGTON

Robert Shaw, CEO of security software startup ArcSight Inc., was pumped. On Dec. 6, he met with federal cybersecurity czar Richard Clarke to talk about the government’s software needs. For a 50-employee company like ArcSight, a meeting with Clarke is comparable to getting invited to a state dinner at the White House.

And it’s enough to give other young software companies a case of ArcSight envy. With demand for software sluggish and corporations wary of doing business with small suppliers, startups are lining up to pitch their wares inside the Beltway. Who can blame them? The federal government is expected to increase its \$44 billion information-technology budget by

9% in 2003—twice the anticipated growth rate for tech spending nationwide. The newly constituted Office of Homeland Security, for instance, will order up new hardware and software systems for gathering, sharing, and analyzing data about potential threats.

While the lion’s share of homeland tech spending is likely to go to industry giants, there should be sizable crumbs for smaller software outfits. The govern-

ment is even offering them a helping hand. In-Q-Tel, the CIA’s two-year-old venture-capital arm in Silicon Valley, has so far invested in 25 software startups. In-Q-Tel CEO Gilman Louie aims to hammer high-tech plowshares into swords. “We want to

get these technologies into a form that’s going to be useful to the intelligence community,” he says. With corporations reluctant to buy technology from startups, the cloak-and-dagger set may be the best hope for software’s small fry.

By Jim Kerstetter



s year, according to
artner.
(t’ll be industry giants
h as IBM, Microsoft, Ora-
and, down a notch, BEA
stems that benefit the
st from increased inter-
in integration. IBM, for
mple, is already the top
ler of such software. And
other three companies
e, in the past year,
led integration to their
ware menus. This is
king things tough for
aller integration players
h as Tibco Software Inc.
l Vitria Technology Inc.
Analysts expect industry
solidation to accelerate in
coming year. IBM got the
rolling on Dec. 6, when
announced plans to buy
tional Software Corp., a
ker of software-develop-
nt tools, for \$2.1 billion in
h. Gartner predicts that
the end of 2004, half the
ware companies in busi-
ss today will disappear,
stly through insolvency.
n the next year or two,
’ll see an acute consolida-
n of companies,” agrees
b Austrian, an analyst
Banc of America Securi-
s LLC.
Particularly hard hit will
small e-commerce com-

COMPUTERS: THE NUMBERS AREN'T QUITE ADDING UP



■ Sales of computer gear will rise modestly in 2003 following two years of **steep declines**

■ But with manufacturers continuing to slash prices, revenue **growth will lag**

Two years ago, the computer industry was closing the books on one of its best years ever. Buoyed by the dot-com boom, worldwide sales of PCs, servers, and other computer gear shot up 12% in 2000, to just under \$400 billion. Going into 2001, some companies expected demand to soften but anticipated no more than a speed bump.

It turned out to be more like a head-on collision. Sales of hardware products dropped by about 7.7% that year and fell another 8.5% last year, to a recent low of

\$336.5 billion. The industry will regain a bit of lost ground in 2003, thanks to rising orders from corporations and consumers. Yet price wars will continue to constrain revenue growth. Overall, hardware sales will rise 3.7%, to \$348.8 billion in 2003, says researcher IDC Corp.

Many believe that slower growth is here to stay. In a December survey of 100 chief information officers by Merrill Lynch & Co., 62% said their companies

are trying to shrink the percentage of their revenue going into info tech to below the current average of 5%. "There's a lid on the IT budget," says Merrill Lynch analyst Steven Milunovich.

Nowhere is that miserly mindset clearer than in the market for servers. This year, nearly 8 in 10 sold will be the less expensive sort—running either Windows or the free Linux operating system—rather than pricier Unix boxes.

That's up from 64% in 2000, according to Banc of America Securities. "Low-cost systems are here to stay," says Scott G. McNealy, CEO of Sun Microsystems Inc., which has seen sales of high-end servers eviscerated by that trend. The result: While server shipments worldwide will rise 7.8%, revenues will actually decline 3.8%.

It's the same story in the data storage business. As demand has dried up, man-

ufacturers have driven the price of storage down to about 3¢ per megabyte, half what it was a year ago, according to researcher Enterprise Storage Group Inc. As a result, though a

SPOTLIGHT



Data: IDC

GROWTH PROSPECTS

B- OUTPUT GROWTH 3.1%	
OUTPUT	\$27.5 BIL.
EMPLOYMENT	296,000

Economy.com, 2003 projection; BusinessWeek

ts anticipate that unit
pments in some storage
egories will rise 15% to
e, overall global sales
l tick up just 3.9%, to
0.6 billion.

At least one sector is
ding the line on pricing:
working switches and re-
ed equipment. Providers
his gear should see a
% spike in global rev-
ue, to \$58.4 billion. Much
he credit goes to Cisco
tems Inc., which has a
share of the market for
atches that direct traffic
computer networks, and
s benefits from strong
ing power, says
unovich. Yet that could
ange as Cisco sees more
mpetition from lower-cost
nufacturers such as Dell
mputer Corp.

Indeed, Dell's march
rough the PC market is a
tionary tale for the en-
e sector. Dell has slashed
prices, and the segment
s turned in two straight
ars of double-digit sales
lines. That has com-
anded the general lack of
thusiasm for new PCs.
en with the starting
ce of desktops below
0, customers aren't bit-
g. They're making do with
ing machines and upgrad-
g only when they have to.
2003, Bear, Stearns &
b. estimates that world-
de PC sales will drop 4%,
\$162.4 billion.

Handheld devices aren't
ring much better.
ewlett-Packard Co. and
lm Inc. have snazzy new
odels, but global sales will
ow just 2.6% this year, to
billion. Who's to blame?
nce again, it's Dell, which
ndercut competitors by
me 50% with a \$199 unit
veiled in November.

The hardware industry's
ite are responding by
tting costs and cozying
o to cash-strapped buy-
s. Sun is pushing inex-
ensive servers that run
nux and are built with
ips from Intel Corp. EMC
orp. is teaming up with
ell to sell storage gear to

small businesses. Nearly all
manufacturers, meanwhile,
are trying to bolster rev-
enues by layering on high-
er-margin software and
services.

Laptop computers seem
to be bucking the overall
trend. As wireless networks
proliferate, worldwide sales
of laptops will jump 8.8% in
2003, to \$57.3 billion, says

Gartner Inc. And spending
on peripherals like printer-
scanner-copier combinations
should rise 7.9%, to \$47 bil-
lion, driven by consumers'
enthusiasm for multimedia
applications, according to
IDC.

Such devices are no safe
haven from Dell, which is
entering the printer space.
Dell is betting it can drive

down prices of printers and
ink and steal some of HP's
currently cushy profits.
With competition like that,
"[customers] can buy 30%
to 50% more stuff each
year with the same dollar,"
says Milunovich. Nice for
buyers, perhaps—but for
manufacturers, it means the
tech wreck ain't over yet.

By Andrew Park in Dallas

CHIPS: HOPING FOR A SURGE

■ Upgrades of PCs
and servers will
drive sales of
microprocessors

■ The ongoing
wireless revolution
will bring a lift to
communications
chips

Willem P. Roelandts
heads the Semicon-
ductor Industry
Assn.'s statistics unit. But
he's surprisingly coy about
forecasting chip sales in
2003. The SIA's official line
is that worldwide chip sales
will climb 19.8%, to \$169
billion. However, Roelandts
is also CEO of chip designer
Xilinx Inc. And when he's
wearing that hat, he's still
haunted by the SIA's off-
the-mark prediction of a
sharp recovery in 2001.
"We'll see some growth
next year," he says, "but
how much is anybody's
guess."

Time is on the chip indus-
try's side because many
computers and electronic
systems are due for replace-
ment. The last PC splurge

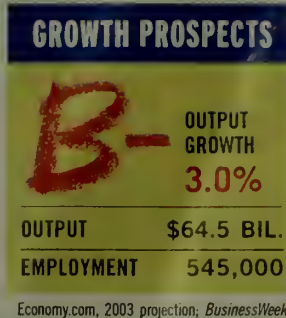
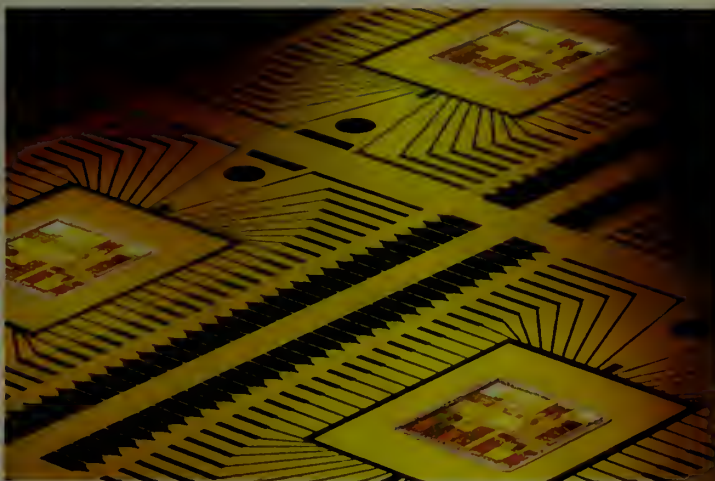
was in 1999, to head off Y2K
troubles. Today, some 500
million PCs worldwide sport
relatively slow microproces-
sors with speeds of 700
megahertz or less. Even
with replacements, though,
the desktop-
and mobile-PC
semiconductor
market will rise
just 8.9% in
2003, to \$39.4
billion, market
researcher IDC
predicts. As
these chips
make up just a
third or so of
the total mar-
ket, hefty dou-
ble-digit growth
probably isn't in
the cards.

To tempt
buyers, Intel
Corp. plans to
boost micro-
processor
speeds to 4.5 gi-
gahertz by late 2003. In ad-
dition, the chip giant will
launch its Banius low-power
chip for notebooks, throw-
ing wireless networking

technology into the mix.
This year will also see the
debut of a new breed of
high-performance chip for
PCs and servers from Ad-
vanced Micro Devices Inc.

Outside of the PC indus-
try, the biggest
challenge will
be exploiting
the "pockets of
growth" within
the maturing
high-tech sec-
tor, says IDC
analyst Shane
Rau. In wire-
less markets,
for instance,
Texas Instru-
ments, Motoro-
la, and Taiwan
Semiconductor
Manufacturing
Co. hope for a
boom in wire-
less phones,
handhelds, and
wireless broad-
band network-
ing gear. It all adds up to a
chip rebound. But beware
of those rosy predictions.

*By Cliff Edwards in San
Mateo, Calif.*





TELECOM: AT LAST, THE DEPRESSION IS LIFTING

- After two years of carnage, the telecom sector is **regaining its financial equilibrium**
- The Bell companies will **complete reentry into long-distance** markets by yearend

Bits of good news keep popping up in a very surprising place: the long-suffering telecom sector. In mid-December, Ciena Corp., one of the last surviving upstarts in the devastated optical-network arena, actually exceeded Wall Street's revenue expectations for its fourth quarter, and predicted sales would rise 10% in the first quarter of 2003.

Yes, telecom's historic two-year-old depression appears to be coming to a close. Businesses such as Nextel Communications, Nokia's handset division, and now Ciena are reporting better results. Prices for airtime on mobile wireless networks rose 0.5% in

September and 1.2% in October, the first increases since the government started keeping records in 1998. New products—from cell phones with color screens to high-speed wireless local-area networks—are catching on. And a rising economy may bring a further lift.

Consider U.S. telecom-equipment revenues. They fell by 25% in 2002, to \$166.4 billion, but should merely flatten this year to \$165.8 billion, says telecom economist James Glen of Economy.com Inc. Telecom-services revenue, which rose only 0.07% in 2002, to \$393 billion, should rise 4.5% in 2003, to \$411 billion. It's no boom. But it has investors feeling cheery. The

Standard & Poor's Telecom Index, which lagged the broad market badly for the last two years, is up 39% since October. "I think 2003 will be a turnaround year," Glen says.

Most of the growth will occur in wireless. With U.S. market penetration at 47% of the population, wireless subscriptions are growing 13% a year. That's just half the pace of a few years ago. But prices are stabilizing and the new phones hold promise, so revenue growth has remained above 20%, and capital spending as a percentage of revenue has improved from

44% to 24%, according to Merrill Lynch & Co. It's likely some carriers will start to turn profitable in 2003 for the first time. "I think that (mobile) wireless data will be successful, and we'll start to see the benefits this year," says Philip Donche-Gay, CEO of telecom and media networks at Gemini Ernst & Young.

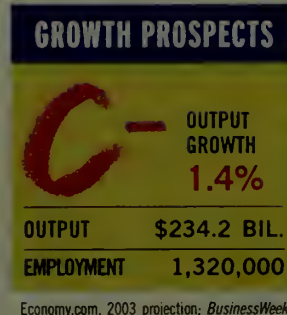
Look for telecom mergers to heat up this year. Companies are slowly getting their finances in order, which makes it easier for them to put a value on each other. And regulations that kept the Bells out of long distance are fading, making deals easier.

Possible takeover targets include T-Mobile International, formerly known as VoiceStream. The company was acquired by Deutsche Telekom for \$26 billion in 2001, and now the big German carrier must raise capital and cut debt. The two most likely buyers are Cingular Wireless and AT&T Wireless because they use similar technology. Another candidate for a merger is Bell South Corp. Already released from its long-distance restrictions, it could break out of its territory by combining with a national long-distance player such as AT&T.

By the end of the year

expect to see more stable telecom industry with fewer players. It's from the telecom fiesta that was envisioned a few years ago. But it's a vast improvement over the wreck of 2000 and 2002.

By Steve Rosenbush in New York, with Roger Crockett in Chicago and Charles Hadad in Atlanta



CONSUMER ELECTRONICS: A BRIGHTER PICTURE

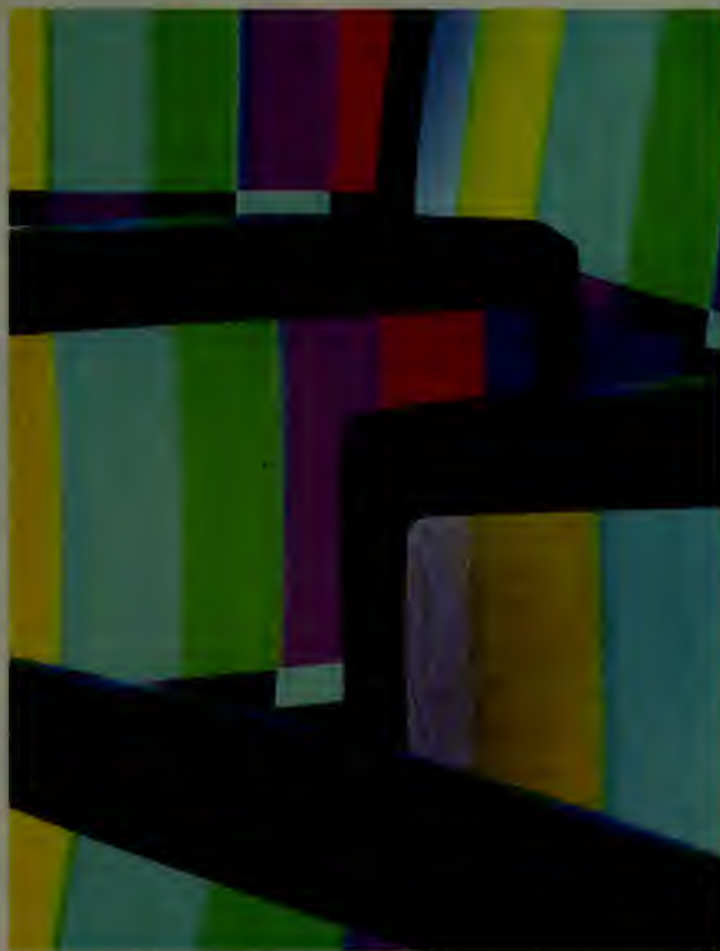
Heated competition will drive down prices on luring flat-screen TVs and DVD recorders

Global sales of video-game hardware and software are expected to surge

Washout. That was the expectation of many Japanese executives heading into 2002, including Matsushita Electric Industrial Co. Managing Director Yukio Itohtoku. Consumers in economically depressed Japan, the No.2 market for electronics, seemed in no mood to shop—and things weren't much better in the No.1 market, the U.S. Itohtoku's nightmare: warehouses of unsold DVD players and camcorders.

Last year surprised everyone, however. Global sales of digital cameras rose 15% on a unit basis, and shipments of DVD machines jumped 33.5%. Sales of consumer-electronics gear from factories around the world to U.S. retailers rose 3%, to \$96 billion, according to the Consumer Electronics Assn. Post-September 11, Americans showed a strong tendency to cocoon, says Alan Wargo, the CEA's chief analyst: "Nothing is doing as well as home-related technology."

That trend is bound to continue this year, says Itohtoku. Although the output of U.S.-based manufacturers is small, the CEA forecasts that total U.S. consumer-electronics sales



will hit \$100 billion, up 4%. Hitoshi Kuriyama, industry analyst for Merrill Lynch Japan Securities Co., predicts double-digit growth globally for digital cameras, game systems, car navigation units, and digital TVs.

DVD recorders, which store videos on disks, may be among the winners. Consumers snapped up a million recordable DVD machines in 2002, and sales this year should more than double, thanks in part to prices that could fall below \$300 by yearend, predicts researcher In-Stat/MDR.

Ever-improving liquid-crystal displays are becoming de rigueur for desktop PCs, and are popping up as TVs, too. Samsung, LG Electronics, and Philips Electronics dominate the world market in the laptop space and are gearing up to challenge Japan's Sharp Corp., the leader in large LCD TVs. Screens will find some new

uses, too. Microsoft Corp., in manufacturing partnerships with ViewSonic Corp., Philips, and others, will be flogging its \$800 tablet-size Smart Displays, which connect wirelessly to home PCs and let consumers roam around the house or surf the Net outdoors.

Much of the action will be in digital TV, whether it's huge projection sets or wall-hanging flat panels. The CEA estimates that 3.8 million digital TV sets will be sold in the U.S. in 2003, up about 30%. Also, global sales of digital still cameras are expected to shoot up 25% this year, to 28 million units, according to Japanese industry statistics.

Consumers will have a variety of choices for tying together their home-electronics gizmos. Sony, Philips, Microsoft, and others are throwing their weight behind wireless home networks, including Wi-Fi setups. At the same time, more than 50 million devices—from wireless phones to camcorders—rigged for short-range Bluetooth wireless links are expected to ship in 2003. And by the end of the year, manufacturers will introduce a zippy wireless video scheme called WiMedia.

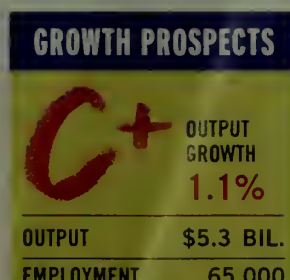
A drawn-out economic slump would probably sap consumer interest in some of these gizmos. But even in a recession, people continue to play video games. U.S. retail sales of game hardware and software in the first 10 months of 2002 jumped 25%, to \$6 billion, according to industry researcher NPD Funworld.

Rain or shine, these games have a way of keeping the electronics industry humming.

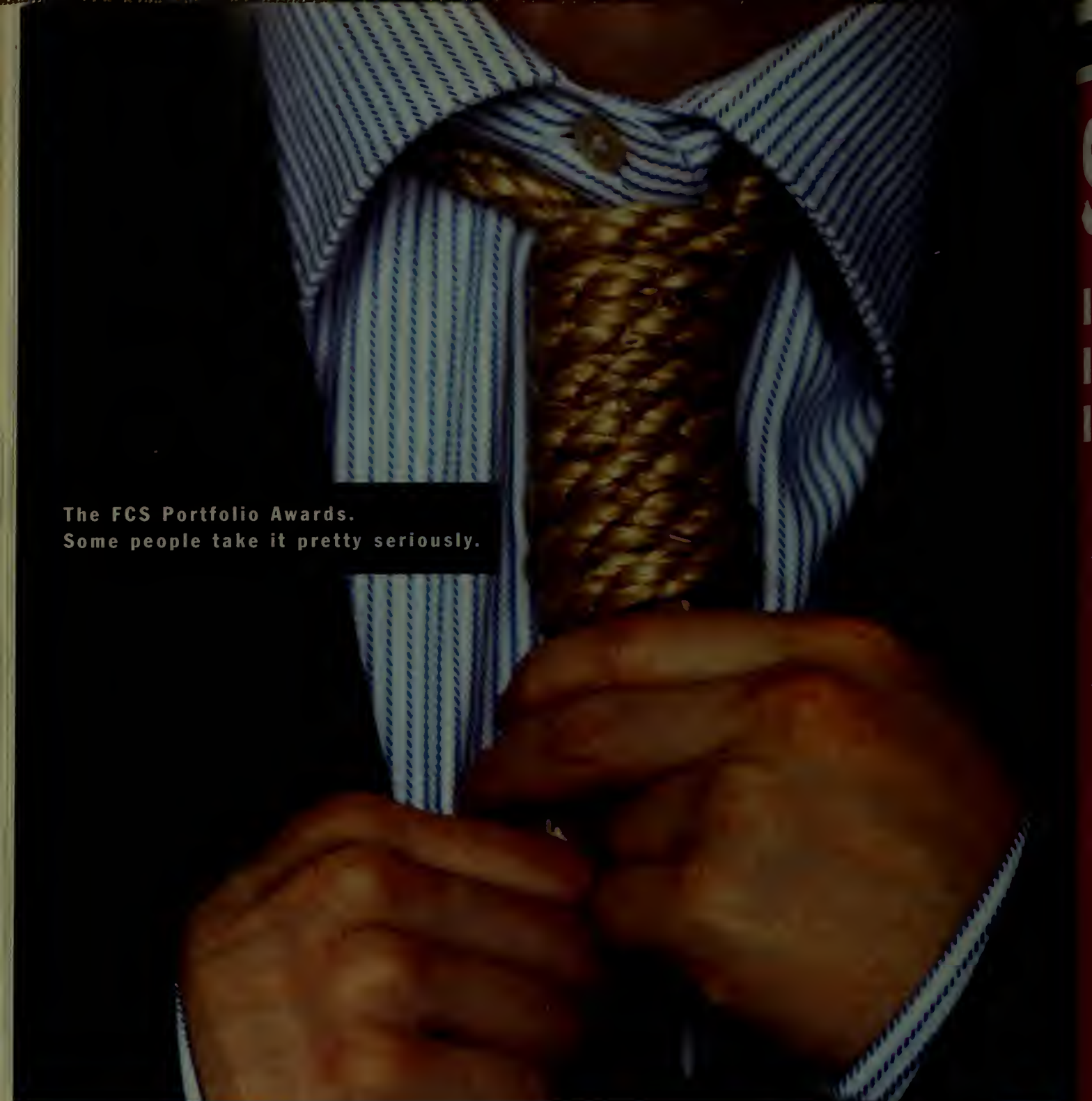
By Irene M. Kunii in Tokyo, with Andy Reinhardt in Paris and Adam Aston in New York



Data: Consumer Electronics Assn.



Economy.com, 2003 projection; BusinessWeek



The FCS Portfolio Awards.
Some people take it pretty seriously.

Even if you're not hung up on awards, the FCS Portfolio Awards gives the financial services industry an opportunity to celebrate those who've hung in and produced outstanding advertising in the face of imposing obstacles.

This year's panel of judges will be chaired by Lowe New York's Gary Goldsmith. As usual, it will consist of an outstanding representation of the people who create the ads (creatives) and the people who will approve the ads (clients and business leaders). They'll be selecting the best television, radio, print, out-of-home, direct mail and interactive advertising in the business-to-business, consumer retail and corporate image categories. All entries must have been published or aired in English between January 1, 2002 and January 31, 2003. The deadline is February 21, 2003. For entry forms call 212.597.5684 or visit www.fcsinteractive.com.

But hurry, the noose is tightening.

FCS

SERVICES

- Retail
- Transportation
- Travel & Tourism



- Media
- Advertising
- Professional Services

RETAIL: THE CART IS HALF FULL



■ Retail sales will steam ahead, despite a slowdown in some big-ticket purchases. But merchants will have little room to cut costs

■ Low prices and innovative offerings will make registers ring at Wal-Mart, Kohl's, and Target

After a decade-long spending spree, Americans are finally stuffing their credit cards back in their wallets. That could slow consumer sales growth to a 12-year low of 2% in 2003. So that means the year will be a bust for retailers, right? Wrong. Although Americans are expected to buy fewer big-ticket items such as cars—those no-interest financing deals are drying up—they'll likely keep the registers ringing at the mall. Retail spending will rise 5.8%, to \$1 trillion, compared with a 5.5% increase in 2002, estimates Mike Niemira, senior economist at the Bank of Tokyo-Mitsubishi in New York. "It's almost a rebalancing of consumer priorities," Niemira says. "Consumers will be spending less overall, but more on retail."

Merchants shouldn't pop on their party hats quite yet, though. While many retailers managed to boost profits last year by beating down supplier pricing, cutting staff, and slashing inventory, their sales growth came largely through heavy discounts and promotions. Now, with ongoing pricing pressure from global competition and a glut of retail space, merchants don't have much room left to increase earnings by cutting costs, says Carl Steidtmann, chief economist at Deloitte Research. "Businesses will have to focus on productivity, technology, and consolidation," says Steidtmann.

Shoppers will be picky, too. More consumers, trained to wait for deals during the past few years, will shun department stores and flock to discounters. And discounters will keep barreling deeper into goods such as groceries, upscale apparel, and higher-price consumer electronics. That will increase pressure on the likes of Circuit City, grocer Albertsons, and F

ted Department Stores. Innovative retailers like department stores such as Pacific Sunwear, Neiman Marcus, and Nordstrom are expected to prosper. Why? They offer unique products and aren't overbuilt. Coming off a strong holiday season, online commerce should maintain its hot streak, rising to \$70 billion. The number of households with high-speed Internet service is expected to jump 37%, to 10 million, by the end of the year, according to Forrester Research Inc. That will help e-tailers, since consumers with broadband access spend 22% more than those with dial-up connections, Forrester says. Amazon.com Inc. remains the bellwether for online retail and is expected to report a \$22.6 million net profit in 2003. But Amazon has to decide whether to continue to offer free shipping on orders over \$25. If Chief Executive Jeff Bezos bumps that back

up to the previous level of \$49, sales growth could slow. Meantime, competition is heating up as savvy retailers such as Best Buy Co. and Sears, Roebuck & Co. move into Amazon's territory. There, they will also confront a hardy group of remaining dot-coms, including eBay Inc. and Overstock.com.

The bloodiest battles will take place in suburban shopping strips. Wal-Mart Stores Inc., the nation's biggest retailer, plans to open nearly 500 new locations in the U.S. and abroad this year. And after rolling out higher-end apparel for women last year, it plans to add Levi's blue jeans and pricier men's clothing and acces-

sories in 2003. That should help the company boost earnings 16%, to \$9.2 billion, says Lehman Brothers Inc.

Wal-Mart continues to force others to craft creative strategies for living in its shadow. Kohl's and Target Corp. both have carved out profitable turf by offering consumers broad selections of brand-

name products at low prices. Kohl's will continue its march into new markets, adding 80 stores in the Southwest and increasing its sales and earnings 22%. While Target has struggled with a foray into groceries and faces problems in its credit business, the company should continue to pick

up shoppers who abandon its bankrupt competitor, Kmart Corp.

Among specialty retailers, Gap Inc. will move back into the lead after a couple of tough years. Even as rivals such as Abercrombie & Fitch Co. and Bath & Body Works suffer from overexposure and a dearth of must-have styles, Gap's earnings are expected to jump 53% in 2003, to \$564 million, according to brokerage Sanford C. Bernstein & Co. Gap kick-started a turnaround late last year by dumping its black-and-white theme and ushering in brightly hued clothes and striped hats and scarves. "They basically have gotten back to their knitting and into color," says Bernstein analyst Emme Kozloff. Gap's experience could be a primer for retailers this year: Shoppers will keep shelling out, but only to those who deliver real value.

By Heather Green in New York



Data: U.S. Census Bureau, Bank of Tokyo-Mitsubishi



Economy.com, 2003 projection; BusinessWeek

TRANSPORTATION: HAVING THE LOAD

Rising costs are pushing **small truckers** to bankruptcy or deals with bigger players. To gain efficiency, **freight giants** will make alliances with ocean shippers and railroads.

In just three years, trucking giant Yellow Corp. has seen a tenfold increase in customers that book and track shipments solely via the Internet. And the shift comes, the savvies are multiplying. An online order costs a mere 6¢ to process, vs. \$1.50 the old way. There's no reason we won't double our num-

ber of Internet customers in 2003," says Yellow CEO William D. Zollars.

The boom in Internet bookings at Yellow and its rivals is a ray of sunshine



for an industry facing rising costs and a slow growth outlook. After contracting in the 2001 recession, industry revenue rebounded slightly in 2002, to \$252 billion. It is forecast to hit \$262 billion this year. But the sales growth may not be enough to cover soaring costs of insurance

and security. More than 8,000 small companies succumbed to those pressures in the past two years.

Painful as it is, the restructuring brings new efficiencies. The surviving small fry are aligning with a handful of big players such as Yellow, Schneider National, FedEx, and UPS. The big players in turn have become general contractors, ever searching for the least



Data: Global Insight Inc.



Economy.com, 2003 projection; BusinessWeek

expensive route. Today an MP3 player may travel via boat, plane, railroad, and truck before hitting a store shelf, with every step of its journey orchestrated by, say, United Parcel Service.

The trend has turned once-bitter rivals into allies. UPS now contracts with ocean freighters to move packages part of the way. "Retailers can save 20% or more by moving merchandise across the country via rail and then transferring to trucks for store delivery," says Matthew K. Rose, CEO of Burlington Northern Santa Fe Corp., the country's largest railroad. Trucking giant Schneider National Inc. estimates that it's now loading 20% more packages onto railroads than it did three years ago. Says Schneider President and CEO Christopher Lofgren: "The railroads have become our partners rather than our competitors."

The alliances help shippers stay competitive despite cost hikes. Insurance for everything from health care to worker's compensation has risen 15% a year for three years and could stay on pace in 2003. Then there is the added cost of security. "It represents a new level of administrative complexity, which translates into higher costs," says Jim Winchester, a transportation analyst at Lazard LLC. Cargo entering a U.S. port must be reported in detail to customs officials 24 hours in advance.

That's why small operators are signing up to haul for giants such as Schneider. The Green Bay (Wis.)-based shipper has recently seen the percentage of its fleet composed of independent drivers climb to 20% from 12%. "They pull their own trailers, but with our logos," says Lofgren. Such cooperation is helping this intensely competitive industry keep rolling.

By Charles Haddad in Atlanta

MEDIA: RETURN OF THE DEALMAKERS

■ **Cable players will consolidate in the wake of the Comcast-AT&T merger**

■ **Satellite companies will up their subscriber base by 3 million—at cable companies' expense**

For many aspiring media moguls, 2002 turned out like an episode of the CBS hit show *Survivor*, with one player after another cast off the island. Scandals and over-aggressive dealmaking banished the likes of AOL Time Warner Inc. Chief Operating Officer Robert Pittman and Vivendi Universal CEO Jean-Marie Messier. The media survivors face a year

of brightening if still uncertain prospects, thanks to the anticipated return of spending on advertising and booming DVD sales. In the cable industry, execs are hoping the rollout of video on demand and other digital services will help reverse the loss of subscribers to satellite-TV services.

For the hardy band of media heavies who made it through last year's tribal councils, 2003 will be a year for regrouping and, for some, building new alliances. Following a relatively quiet 2002, deal activity may begin to stir again. Comcast Corp.'s \$54 billion acquisition of AT&T's cable systems will force big content owners to react by acquiring distribution companies, says Morgan Stanley analyst Richard Bilotti. Rupert Murdoch's News Corp. will

likely make another bid to buy satellite broadcaster rectv Inc. That deal would give Murdoch the missing link—a U.S. satellite service—in a worldwide distribution network to deliver his Fox Entertainment Group Inc. news, sports, entertainment. It may also force other media companies to ally themselves with EchoStar Communication Corp., the other major satellite company, says Bilotti.

Billionaire cable magnate John C. Malone is likely to return to center stage. At his Liberty Media Corp. could well end up joining forces with Murdoch, says Liberty CEO and President Robert R. Bennett. Bennett also hints that Liberty could ally with USA Interactive Inc. Chairman Barry Diller to buy a controlling stake in debt-hobbled



endi Univer-
s U.S. enter-
ment assets,
ich include
Universal
dio and mu-
units. A sur-
se entry into
Diller-Mal-
e camp may
General
lectric Co.'s
c network,
ich is seen as
ely to buy
o Hollywood
der new Gen-
al Electric
airman Jef-
y R. Immelt.
his year will
really big.

"I'll see all the
als that didn't happen last
ar," says Metro-Goldwyn-
ayer Inc. Chairman Alex
menidjian, whose compa-
is contemplating a bid to
y the American Movie
assics cable channel from
blevision.

While the titans continue
plot, cable and satellite
ll keep going at each oth-

The cable camp spent
ore than \$60 billion up-
ading their networks
er the past five years.
ow they're rolling out
rvice such as video on
mand, hoping that will
op satellite's advances. In
02, cable's subscriber
se grew little if at all
om 70 million, and this
ar the prospects are
rdly better. Satellite-dish
vners, meanwhile, are
recast to grow to 22 mil-
n, from 19 million, says
icewaterhouseCoopers.

Meanwhile, TV networks,
ble TV, and newspapers
ill enjoy a rebound in ad
les in 2003. Universal Mc-
nn forecaster Robert
ben predicts media-wide
sales will pass 2000's
cord by growing 5%, to
\$49.3 billion. The TV net-
ork ratings race will inten-
fy between CBS and NBC.

Still, events off the island
uld skewer some of these
ans. A long war in Iraq
ould dampen consumer



Data: Veronis Suhler Stevenson Partners LLC



Economy.com, 2003 projection; BusinessWeek

confidence, sap
ad spending,
and likely harm
companies such
as the Walt
Disney Co.,
which counts
on lots of visi-
tors to its
theme parks.

On the other
hand, Holly-
wood could
benefit even if
folks stick clos-
er to home.
The studios are
already collect-
ing an estimat-
ed \$8 billion a
year in DVD
rentals and
sales, giving

new life to their older
movies. In 2003, that mar-
ket will likely grow 25%, to
\$10 billion, according to
Adams Media Research. To
fuel future DVD sales, Holly-
wood will release such po-
tential blockbusters as *The
Matrix Reloaded*, *Termina-
tor 3*, and *The Hulk*.

And Tinseltown's lawyers
are busy trying to keep its
TV shows, movies, and mu-
sic safe from unauthorized
copying. Sometime in 2003,
a federal court is likely to
rule on the studios' efforts
to block SONICblue's Re-
playTV, the personal video
recorder, from allowing con-
sumers to e-mail TV shows
and movies to friends.

If the media giants are
worried about the outcome,
they don't show it. "We're
too big to fall over and die
on the side of the road,"
says AOL Time Warner CEO
Richard D. Parsons. Still,
there's plenty to worry
about. Parsons needs to
cut AOL's debt and get its
Internet service growing
again. At Disney, chairman
Michael D. Eisner has
pledged to turn around
ABC's limp ratings. These
media executives know
there could be a new round
of tribal councils if they
slip up.

By Ronald Grover and
Tom Lowry in New York



ADVERTISING: TURNING THE CORNER?

■ Many marketers **remain cautious**, waiting to see if the economic recovery is for real

■ Still, Hollywood, carmakers, and packaged-goods companies will **keep spending**

Maybe it was the deal-
pushing auto compa-
nies, or the movie-
pitching studios, or
the mudslinging politicians.
Whoever kicked it off, the
advertising rebound was evi-
dent on TVs across the U.S.
in autumn 2002.

It will continue
into this year,
with marquee
properties such
as the Super
Bowl looking as
vibrant as ever.
The uptick has
even brought
relief to some of
the long-suffer-
ing advertising
vehicles, such as
magazines and
direct mail. "It's
a complete sell-
er's market
right now," says
Peter Gardiner,
partner and
chief media

officer at agency Deutsch,
with clients such as Mits-
ubishi Motors, Revlon, and
Snapple.

The surge late last year
helped pull up spending for
2002 as a whole to \$237 bil-
lion, 2% over 2001. Barring

any dampening
effect from a
war in Iraq, the
outlook for this
year is for mar-
ginally stronger
growth. Zenith
Optimedia

Group, a media-
buying agency,
is predicting ad
sales will grow
by 2.3%. Uni-
versal McCann,
another media
buyer, antici-
pates a 5%
uptick, to \$249.3
billion. Even
the beleaguered
Internet should
see an end to



Data: Universal McCann



Economy.com, 2003 projection; BusinessWeek

ad declines and the beginnings of growth. "[Ad spending] is coming back much more quickly than it used to," says consultant Sam Hill, co-founder of Helios Consulting Group.

Such optimism is welcome. On the client side,

this tentative recovery restores discipline that was lost during the dot-com advertising boom. Some marketers are trying to differentiate their messages amid the ad clutter by tying their media buys to product-placement deals or pro-

motions. Others are bypassing the media entirely, relying on word-of-mouth marketing efforts. Clients are also more likely to demand real proof that their spending is garnering a return—and they could quickly turn off the spigots if they are

displeased. "Has the bleeding stopped?" asks Jon Mandel, co-CEO of ad-bu agency Grey Global Group MediaCom Worldwide. "Yes, but the wound isn't healing yet."

By Gerry Khermouch
New York

TRAVEL: GOING NOWHERE FAST

■ Airlines face more **multibillion-dollar losses**

■ Weak demand from business travelers will **drag down** hotel revenue growth

Some forecasters believe the travel industry is rebounding, but U.S. airlines and hotels won't be celebrating. A weak economy, a more frugal business class, and fears about a war with Iraq will leave the U.S. travel sector limping in 2003.

Barring an invasion of Iraq, though, this year may not be as bad as the last one. U.S. airline industry losses should shrink, from more than \$9 billion in 2002, to between \$3 billion and \$6 billion this year, says David A. Swierenga, chief economist of the Air Transport Assn. But that still means serious pain. Analyst Susan M. Donofrio of Deutsche Bank Securities Inc. thinks the nine major carriers alone will lose \$3.1 billion this year, excluding one-time charges. That's about half of last year's loss, on flat revenues of \$78.5 billion. Among the majors, only



low-fare king Southwest Airlines Co. and Alaska Air Group Inc. are likely to turn a profit.

The year's big story will be on the cost side. Bankrupt United Airlines Inc. and US Airways Group Inc. are trying to slash labor costs by changing wage

can is seeking \$4 billion in annual cost savings—although it has identified only half the amount it says it needs to be competitive with such low-cost players as Southwest and JetBlue Airways Corp.

Rising revenues won't bail the sector out. Indus-

best, Continental Airlines is expecting revenue per passenger mile to rise a modest 4% to 5%.

With their fate so closely tied to the airline industry's, hotels can also expect a "disappointing rebound" this year, predicts Bjorn Hanson of PricewaterhouseCoopers. Business travel will remain weak, even as the hotel room supply grows slightly.

As a result, he forecasts the hotel occupancy rate will creep up only a smidgen. It will rise to 60% this year, up from 59.3% in 2002, which was the industry's worst performance in 31 years. Revenue per available room should climb 2.1%—assuming there is no war in Iraq—after falling nearly 3% in 2002. Overall, industry pretax profits are likely to grow 5.3%, to \$16.9 billion, on revenues of \$113 billion, up 3.4% from 2002.

Some travel managers are pressing for deeper cuts by concentrating the business among fewer hotels. That helps explain why Cendant Corp.'s hotel group, which franchises such brands as Ramada and Howard Johnson, is striving to maintain customer loyalty and boost market share. Last year, it started "Project Restore," an attempt to weed out 200 underperforming properties from 6,000. This year, it will roll out a loyalty program. In short, the customer is no king. And any hotel company or airline that overlooks this axiom might find itself banished.

By Wendy Zellman
in Dallas

SPOTLIGHT



GROWTH PROSPECTS

C	
OUTPUT GROWTH	1.6%
OUTPUT	\$296.9 BIL.
EMPLOYMENT	4,979,000

Economy.com, 2003 projection; BusinessWeek



PROFESSIONAL SERVICES: THE HELP NEEDS HELP

**Consulting work
tougher to land**
Corporate demand
IT consulting is
slak, but government
demand will be up

Consultants are by nature and necessity optimistic, can-do types. But after the year just endured, they have reason to look a little down at the heel. Although consulting managed to eke out a 2.5% increase in global revenue in 2002, there are numerous indicators that the industry was in a bad shape—and the outlook for 2003 is uncertain at best. It's easy to understand the general funk. In 2002, many of the major names in consulting, Arthur D. Little, PricewaterhouseCoopers, and Arthur Andersen, closed their doors. Dozens of other firms went under or suffered major layoffs. The failure of companies such as Enron, which had been a major consumer of consult-

ing-firm advice, is also hurting the industry. So are rumors that partners at high-level firms are having to pony up capital to keep their companies on sound footing. Laws that limit nonaudit and consulting services by auditors could also be a damper.

At times in 2002, the response to all this bad news bordered on panic. "Business in general is down, and we see a lot of irrational pricing," says David A. Nadler, chairman of consultant firm Mercer Delta Consulting LLC. "People are giving away business, literally, to keep their customers." *Consultants News* editor Jess Scheer calls 2002 "the perfect storm of bad factors." The biggest problem: The average size of a consulting engagement is shrinking and the time it takes to win one is expanding. Scheer's research showed that firms last year bid on 10% more projects than they did in 2001, but actually landed 10% fewer jobs—a trend he doesn't expect to change in '03. In-

vestors have turned on consulting stocks, too: Electronic Data Systems Corp. fell about 73% in 2002, and Accenture Ltd., the former Andersen Consulting, was down about 31%.

Smaller outfits could get a break this year as companies go shopping for new sources of advice, in order to keep consulting segregated from auditing. Resources Connection, which provides financial executives and certified public accountants for internal audits and other projects, has opened five new offices to help chief financial officers reexamine their businesses. And Tigris Consulting, which focuses only on wringing profits from a company's existing supply chain, has had major corporations call

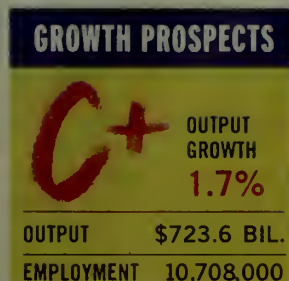
out of the blue looking for fresh blood.

As in the past year, Uncle Sam will be one of the best consumers of consulting services in 2003. Companies with strong public-sector practices, such as BearingPoint Inc., have seen continuing solid sales of technology systems to the federal government. While information-technology consulting to corporations is down 40% from its high in 1998, S. Daniel Johnson, who heads BearingPoint's public-sector business, expects government demand for that work to continue growing for at least the next five years. At the same time, Johnson, who already does business with the State Dept., Immigration & Naturalization Service, and other agencies, expects homeland security initiatives to add \$4 billion plus to government spending this spring.

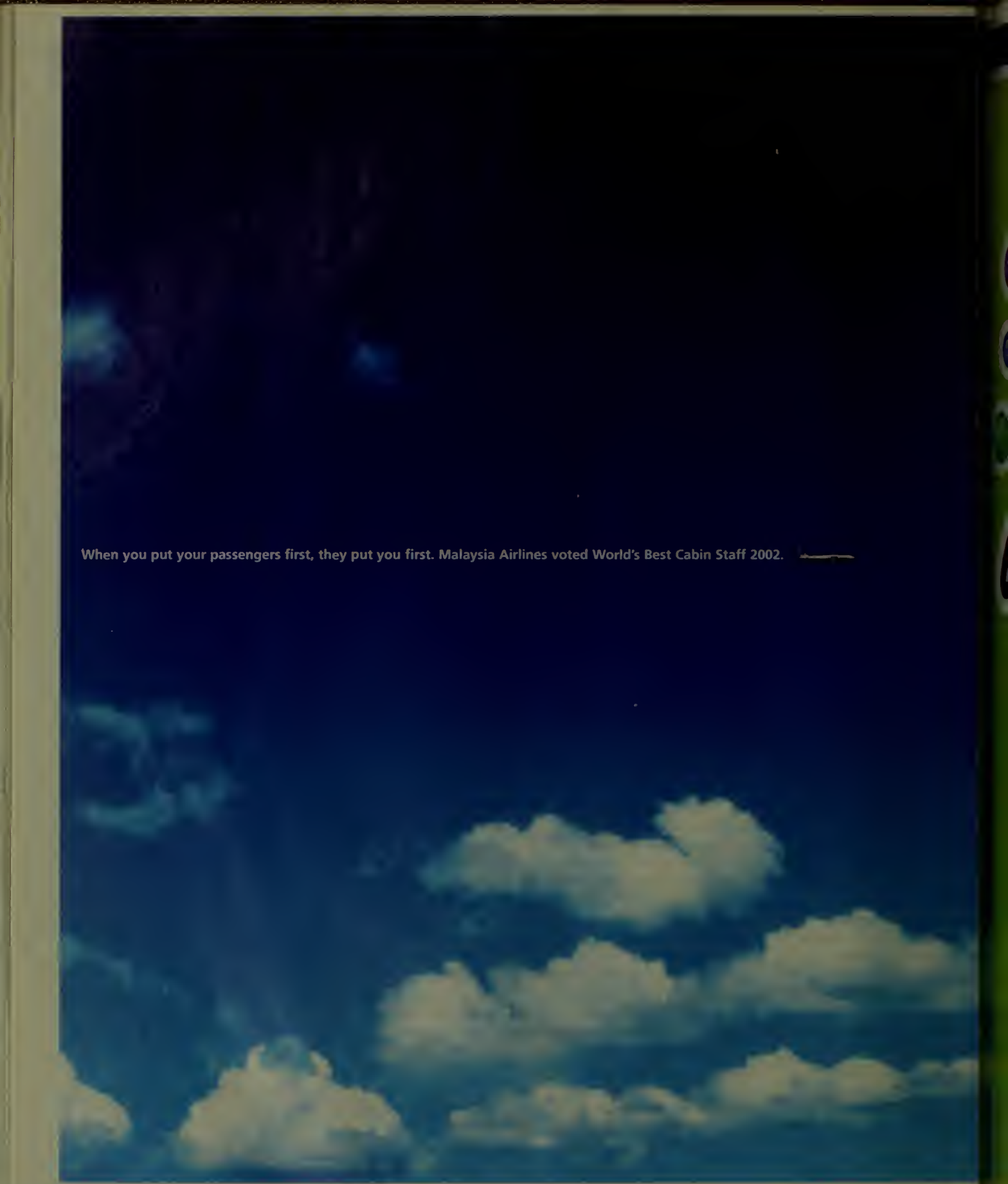
While 2003 won't be a banner year, there's some sense of growing opportunity. Julie Morton, associate dean for MBA career services at the University of Chicago Graduate School of Business, says that consulting firms requested 14% more interview slots in 2002 vs. the previous year—a figure that usually tracks the number of MBAs

they'll hire. More students are being invited for second interviews, and a number have already been offered jobs. "It definitely looks much more positive," Morton says. That may be optimism talking. Or maybe the consultants are really onto something.

By Nanette Byrnes, with Jennifer Merritt, in New York



Economy.com, 2003 projection; *BusinessWeek*



When you put your passengers first, they put you first. Malaysia Airlines voted World's Best Cabin Staff 2002.



It's how all good relationships are built. By putting the interests of others first. By paying special attention to special needs. And by fulfilling requests sometimes, even before they are spoken. Perhaps that's why, for the second year running, international passengers in the Skytrax Global Survey voted Malaysia Airlines as the world's best in staff attentiveness, efficiency, sincerity, personality and overall warmth of cabin service. Come experience what it's like to be treated as the best. By the best. Malaysia Airlines. Going beyond expectations.



LIFE SCIENCES

■ **Drugs**

■ **Health Care**



DRUGS: RELIEF FROM THE PAIN

■ Drugmakers are set to launch a number of **potential big sellers** in 2003

■ There will be more **licensing deals** and possibly a big merger or two

The best thing most drug industry executives can say about 2002 is that it's over.

The year was marked by patent expirations on blockbuster medicines, followed by competition from cheaper generics, and by a dearth of hot new products. Even drug-company shares, long thought to be a safe haven in tough economic times, dropped right along with the overall market.

In 2003, those trends should start to reverse. Fewer products will go off patent, while some potential big sellers should hit the market. "It still won't be as good as what we saw in the heyday" of the 1990s, says Norman M. Fidel, health-care portfolio manager at Alliance Capital Management LP. "But while we barely had earnings growth in 2002, we should get back to close to low double digits in 2003."

The biggest reason for that improvement: Fewer blockbuster drugs will lose sales to cheap



knock-offs. In 2002, sales fell off a cliff for a number of big drugs due to generic competition. Victims included Merck & Co.'s hypertension drug Prinivil and Bristol-Myers Squibb's diabetes drug Glucophage. There will be some similar pressure in 2003, particularly as new over-the-counter versions of Schering-Plough's blockbuster allergy medicine Claritin eat into sales of that big seller. But for most companies, patent expirations will be fewer this year.

At the same time, new product launches, though hardly overwhelming, are beginning to ratchet up. Several promising new therapies are expected to roll out in 2003, including Abbott Laboratories' Humira for rheumatoid arthritis; Levitra, a Viagra competitor from Bayer and GlaxoSmithKline; and Crestor, a cholesterol-lowering therapy from AstraZeneca.

Eli Lilly & Co. is also likely to launch Strattera, for attention-deficit hyperactivity disorder, and a new antidepressant called Cymbalta.

But turning those products into best-sellers will be a challenge. Consumers are already feeling the squeeze from higher insurance copayments for prescriptions, and that trend will continue in 2003. "The shifting of the cost burden from payers to consumers is causing a significant slowdown in prescription [growth]," says Pfizer Inc. Chairman and CEO Henry A. McKinnell.

Compounding that pressure are less than robust pipelines at many companies. Unable to accelerate the discovery and development of new miracle drugs, more pharmaceutical companies will look to license products from the few

ch companies with
nising compounds—or
ire those firms. The
lem is, all the players
n to have the same idea.
se deals have gotten
e competitive and more
nsive,” says Pfizer’s
innell. That’s one rea-
Donald Meltzer, global
ead of mergers and ac-
itions at Credit Suisse
t Boston, expects more
s to be made for prod-
at an earlier stage of
elopment.
ook for at least one or
big deals to be inked
2003. Among the compa-
viewed as vulnerable
takeover: Schering-
gh, which is in the
st of a CEO search, and
adal-plagued Bristol-
ers Squibb, which is
ering from patent expi-
ons, bloated wholesaler
entories, and fallout
n its partnership with

ImClone Systems Inc. On the buyer’s side, analysts will also be watching Johnson & Johnson, which has a strong share price to use as leverage in deals. “J&J’s pharmaceutical division needs some improvement,” says Liu-Er Chen, portfolio manager of the Evergreen Healthcare Fund. “There’s a good chance they’ll do something.”

The biggest question mark for the industry, however, is Washington. And of 2003’s many political issues, one of the hottest will be the effort to pass a Medicare prescription-drug benefit. Right now, Medicare covers only drugs administered in a hospital or doctor’s office. Most political observers believe there’s a decent chance that a Medicare drug benefit will pass in 2003. And with Congress in GOP hands, the

betting is that any new law will favor drug-makers by eschewing strict government price controls. “I think with the election behind them, they’ll come together and do it,” says Merck Chairman and CEO Raymond V. Gilmartin.

At the same time, most industry execs are encouraged that the Food & Drug Administration finally has a commissioner after nearly two years without one. New-drug approvals slowed noticeably while the agency was leaderless. And while no one expects a rap-



Economy.com, 2003 projection; BusinessWeek

id shift in policy, industry players are relieved that Commissioner Dr. Mark B. McClellan has been talking about an “opportunity” to accelerate approval times. McClellan contends that the recent renewal of a law requiring industry funding for drug reviews should give the FDA much-needed additional re-

sources. That can only help the industry climb out of an unusually tough downturn.

By Amy Barrett in Philadelphia, with John Carey in Washington

BIOTECHNOLOGY

'A TERRIBLE PANIC' AMONG PRIVATE BIOTECHS

Variagenics Inc. should have been a success. The Cambridge (Mass.) startup had a hot new technology: harnessing genetic variations to speed drug development. It went public in the biotech boom year of 2000. But since then, the stock has swooned from more than \$28 to \$1.40. In mid-November, the company was acquired by another biotech, Hyseq Inc., for just \$55.9 million in stock—less than Variagenics’ \$60.8 million in cash and marketable securities at the end of the third quarter. To survive, the combined company will cut its staff nearly in half.

Sadly for Variagenics, it got caught in 2002’s severe biotech downdraft. “We are coming off one of the most difficult years the industry has ever had,” says Dennis J. Purcell, senior managing partner at the Perseus-Soros BioPharmaceutical Fund.

While big names, such as Amgen Inc., have weathered the storm, virtually everyone else is hurting. The stocks of hundreds of biotechs are trading for less than \$5 per share—many below their

cash value, says Purcell. And with the IPO market virtually dead and no upturn in sight, “venture capitalists are terrified that their companies can’t go public,” says one CEO. “There is a terrible panic.”

Vcs say that the average private company has only 10 months of cash left. So they are downgrading their portfolios and anteing up more money. “The market is terrible, and it’s very difficult to find companies with valuations that make sense,” says Dr. Jean-François Formela, general partner of Atlas Venture.

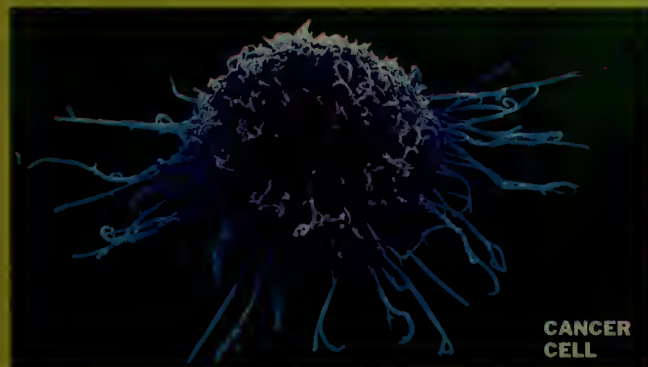
Hardest hit are those outfits that offer technologies instead of new drugs. A wary Big Pharma has been doing only modest pilot deals with these firms, causing many to refocus on developing their own products. But that can be a tough road, too, because the financing crisis makes it

hard for small biotechs to afford clinical trials. Without proof that the drugs work, major drugmakers won’t buy. Plus, early clinical results from many biotech companies have been disappointing. In the next year or so, “lots and lots of companies are going to die,” predicts Alan G. Walton of Oxford General Partners.

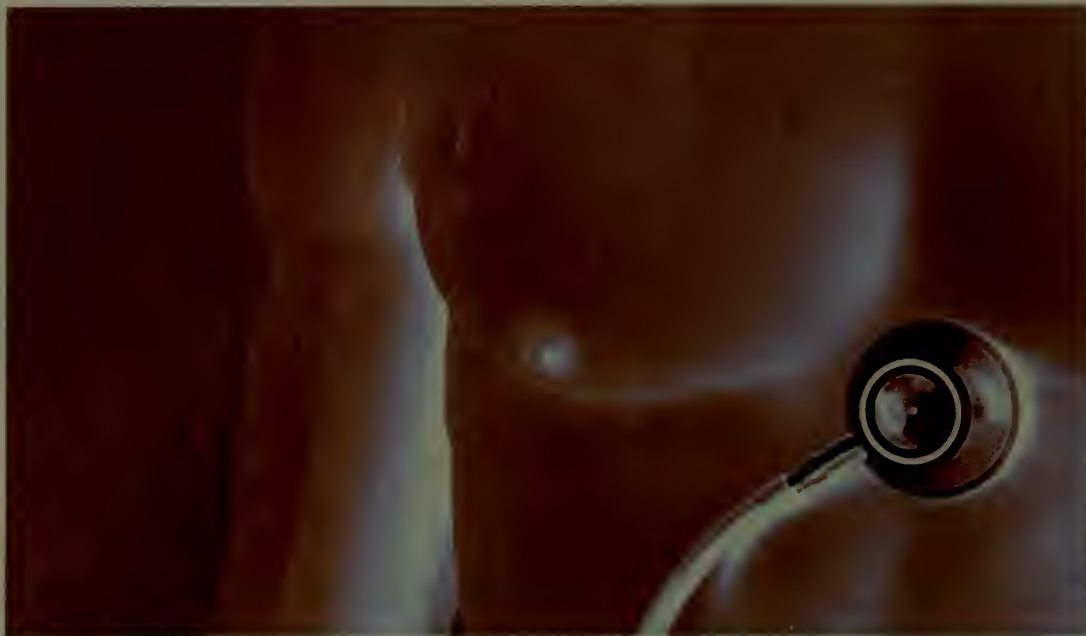
The gloom won’t last forever. Given big leaps in science, no one doubts that blockbuster drugs are on the horizon. By 2004, the bloom may be back on the biotech rose.

By John Carey in Washington

AS IPO FUNDS AND DEALS WITH BIG PHARMA DRY UP, LOTS OF SMALL FRY COULD FAIL



CANCER CELL



HEALTH CARE: GROWING BUT NOT GLOWING

■ Employees will pay more as **insurers** keep raising rates

■ New legislation may help **hospitals** and physicians

For a glimpse of the challenges facing the health-care industry, consider the travails of Tenet Healthcare Corp. In December, the hospital operator slashed its earnings projections following revelations that much of its growth had come from higher pricing rather than increased hospital admissions. Anticipating new restrictions in contracts with health maintenance organizations and Medicare, Tenet executives now admit that they must adopt more conservative billing practices and that profits could fall in the fiscal year beginning June, 2003.

Tenet's rapid fall demonstrates the vulnerability of

health-care players to a variety of pressures. Granted, the industry is in great shape compared with 2002's many laggards. It's poised for growth, thanks to an inexorable demographic trend: 75 million aging baby boomers demanding quality care. The U.S. will spend \$1.7 trillion on health care in 2003, up 13% from last year. But advances in medical devices and drug therapy, while improving care, will also raise costs. Factor in the nursing shortage and legislative reforms, and you could end up with a high-risk profile.

Once again, industry experts predict, health-care companies will offload much of that risk. Employers and consumers are certain to pick up more of the health-care bill, with premiums projected to jump 16% in 2003, ac-

cording to consultants Towers Perrin. That's the fourth consecutive year of double-digit rate hikes and the highest increase since 1990. Consequently, 2003 should be an upbeat year for health insurers, as premium increases more than cover costs.

The higher rates will force employers to look for ways to reduce their health-care burden. More companies will adopt defined-contribution plans, in which they set aside a fixed amount of money that each employee can use to purchase his or her own medical care. In 2002, the Inter-

nal Revenue Service ruled that funds for such plans are tax-exempt, which should increase their popularity. Several large insurers, including Aetna Inc. and Humana Inc., are helping companies develop managed-care programs. "We'll see more managed-care players capitalizing on the trend," predicts Rakesh Shankar, a health-care analyst for Economy.com Inc.

Hospitals have a different set of pressures. For one thing, a persistent nursing shortage continues to dog the industry. Bain & Co. estimates that 7% of nursing spots will remain unfilled in 2003, up from 5% in 2002. Hospitals will have to boost wages and spend more on other perks, such as career-development programs. "They need better ways to keep nurses from leaving the profession," says Russ Hagey, managing director of Bain's Los Angeles office.

Hospitals, however, may find it hard to boost prices. Insurers are already protesting relentless premium increases. The Centers for Medicare & Medicaid Services has vowed to increase its scrutiny of hospital-billing practices. The agency wants to close loopholes that allowed companies like Tenet to collect unusually high payments.

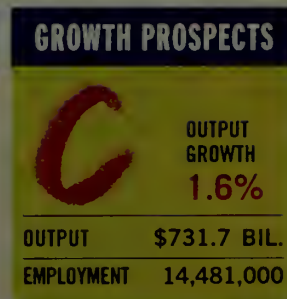
The best hope for providers is relief from the government. George Bush has ballyhooed a prescription drug plan for seniors, and the government is debating stemming Medicaid payment cuts to doctors and placing caps on malpractice

damage awards. "There are clear positives in the industry," says Rita Friedman, analyst for PNC Advisors. Health-care providers can only hope that she's right.

By Ari Weintraub
Los Angeles



Data: Centers for Medicare and Medicaid Services, UBS Warburg



Economy.com, 2003 projection; BusinessWeek



No matter the work environment, now there's an intelligent flat-panel monitor for users everywhere.

Introducing the new NEC MultiSync® 60 Series LCD monitors. Intelligence, performance and value make them the right choice anywhere. Only from the leading brand of stand-alone flat-panel monitors. The work may be different, but that doesn't mean users can't all benefit from the clarity, precision and smart design of our most versatile line of flat-panel monitors. '

The 60 Series has something for everyone. Just choose the model with the intelligent features you need. Like NEC's Rapid Response™ technology for lifelike full-motion video display. No-Touch Auto Adjust™ for optimal display settings upon initial power-up. Or an integrated DDC/CI function with NaViSet™ Administrator software for easy LAN-based remote diagnostics, control and asset tracking.

Ergonomic cabinet design, thin frames and choice of cabinet colors help the monitors fit into virtually any workspace, while adherence to ISO 13406-2 specs provides you with the assurance of quality. What's more, cable management prevents wire clutter while minimal energy consumption and a vacation switch that completely shuts down the monitor's power mean a lower total cost of ownership. Pretty smart, huh?

Learn more at www.necmitsubishi.com/intelligent or call 888-NEC-MITS.

SEE MORE.™



NEC MultiSync monitors.

Bright outside. Brilliant inside.

Smart technologies

Model	1560V	1560NX	1560M	1760V	1760NX	1760VM	1860NX
Rapid Response	No	Yes	Yes	Yes	Yes	Yes	Yes
Thin Frame	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DDC/CI	No	No	Yes	Yes	Yes	Yes	Yes
No Touch Auto Adjust	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Integration Capable	Yes	Yes	No	Yes	Yes	No	Yes
LiquidView™ Software	No	No	No	Yes	Yes	Yes	No
Multimedia	No	No	Yes	No	No	Yes	No
Vacation Switch	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cable Management	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Input Interface Connectors	VGA	DVI-D & VGA	DVI-D & VGA	VGA	DVI-D & VGA	DVI-D & VGA	DVI-D & VGA

Disco and email. You call that multitasking?

Try scanning and copying while
printing a 200-page document.

HEY DANCING QUEEN

YOU LISTENING TO ME?



TOSHIBA
Don't copy. Lead.

Are you capable of doing two things at once? What about six? Or seven? Turn your multitasking skills up a few notches with the e-STUDIO810. It's one machine that does the work of many, offering copy, print, scan, iFax and tab printing capabilities while delivering the highest resolution in its class (600x2400 dpi). This overachiever serves up to 81 copies per minute, and comes with multiple network printing options. If you're into copiers, this one will make you want to get up and boogie. For more information visit copiers.toshiba.com or call 1-800-GO-TOSHIBA.

copy

print

scan

wireless



DOWNMARKET COSTCO GOES UPMARKET—WITH CAVIAR.

NURSE-STAFFING OUTFIT CROSS COUNTRY COULD PERK UP.

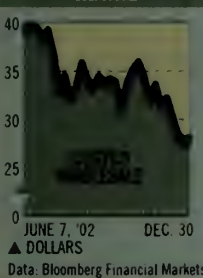
CRUISING BENEATH WALL STREET'S RADAR, HERLEY IS A FIND.

MARA DER HOVANESIAN

Costco: A Bargain?

Warehouse shopping is going upscale. To attract sophisticates, members-only Costco Wholesale (COST) is sprucing up its shelves with high-ticket wine and fresh foods, such as filet mignon and caviar. The club chain is adding its high-end furniture selection in some stores, too. The plan is to inspire its 19 million cost-conscious customers to shell out even more than an average \$103 per visit. Dec. 12, Costco posted fiscal first-quarter earnings of \$145.7 million on \$9 billion in revenue. The numbers represented a 12% hike in profits over last year, but same-store sales growth slowed from an average of 6% in the previous 12 months to just 2% in the last two months. Costco cut its outlook for both the fiscal second quarter ending February and for the rest of the year. A disheartened market pushed shares to a new low of 27.09, continuing a year-long drubbing: The stock lost 37% in 2002 as investors dumped retail stocks, reflecting doubts that consumers could keep spending. Robert Hoehn, Fulcrum Global Partners research director, says the sell-off is overdone. "This is a good opportunity for Costco to expand [its] profits," he says. He estimates Costco profits of \$1.62 a share in its next fiscal year, and \$2.00 for fiscal 2004. His 12-month price target: 42. Obstacles are "more a function of the economy than Costco's business model," adds Marie Driscoll, a senior analyst at Argus Research, who sees the stock at 40 in 12 months. Costco is in a good position to bounce back."

INVESTORS DUMPED RETAIL



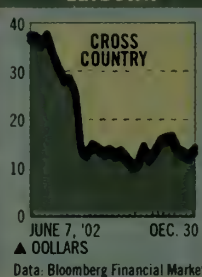
Eaten-Down Cross Country May Be Due for Relief

The exception to a lackluster initial public offering market for the past 18 months was Cross Country (CCRN), a temporary-nurse-staffing outfit that went public on Oct. 24, 2001. From a debut at \$17, the stock jumped 128%, to a high of 38.86 by December, 2002. But investors soured when the Boca Raton (Fla.) company didn't meet revenue expectations. By Dec. 30, shares had fallen to 14. To control costs, hospitals have reduced outsourcing. So the upstart's growth has been "more modest than most people had hoped," says analyst Charles

Lynch of CIBC World Markets, a co-underwriter of the IPO.

But a nursing shortage persists. The *Journal of the American Medical Association* says anemic enrollment in nursing schools won't meet the demands of an aging population. Cross Country is the largest U.S. provider of health-care staffing services, serving 3,000 hospitals and other providers. Lynch expects revenue to hit \$750 million in 2003, a 19% hike, and EPS to jump to \$1.25 from \$1.02. A \$25 million stock buyback plan was announced on Nov. 4. The stock's P/E ratio is 11 times next year's estimates. "There's a boatload of cash on the books and no debt," says Michael Balkin, manager of the \$71.4 million William Blair Small Cap Growth Fund. He put 1% of the fund's assets in the stock last quarter.

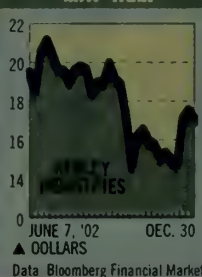
IPO LETDOWN



A Smoother Flight For Herley Industries

Herley Industries (HRLY) is a tiny company beginning to make big waves. A specialist in developing microwave technology for defense instruments, it posted record first fiscal quarter profits in December of 22¢ per share on \$27.3 million in sales, vs. a loss of \$2.3 million a year ago. That sent the stock up 14% in December, to 17, though it's still way below its April high of 24.62. With a market cap of just \$255 million, the 36-year-old Lancaster (Pa.) company isn't covered widely by Wall Street. But its products, used for navigation and data communication, are becoming known worldwide. Last September, Herley acquired EW Simulation Technology, a British maker of electronic warfare simulator systems. Herley has struck up new business in South Korea, Spain, and Israel. It's also generating free cash flow of more than \$1 million a month, some of which is currently being used to buy back shares. Defense analyst Steve Wortman of New York's Sidoti & Co., who reiterated his buy rating on Dec. 13, says the stock could return to its former high in a few months.

A BUYBACK MAY HELP



Gene Marcial is on vacation.

BusinessWeek online

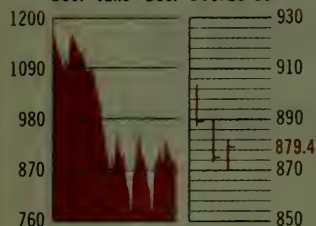
Read Gene Marcial's Inside Wall Street Online column Tuesday afternoons at www.businessweek.com/today.htm. And see him Fridays at 1:40 p.m. EST on CNNfn's *The Money Gang*.

Unless otherwise noted, neither the sources cited in Inside Wall Street nor their firms hold positions in the stocks under discussion. Similarly, they have no investment banking or other financial relationships with them.

STOCKS

S&P 500

Dec. June Dec. Dec. 26-30

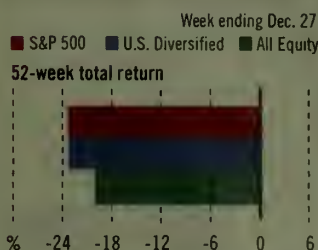
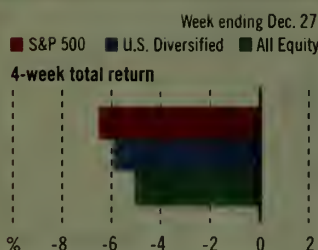


COMMENTARY

The holiday cheer did not extend to the equity markets as stocks continued to lose ground in the final week of 2002. Leading the slide was the tech-laden NASDAQ, which slipped 2.4%, followed by the S&P 500, off 1.5%, and the Dow, down another 1.4%. The silver lining is that decline came on very light volume as investors kept to the sidelines ahead of the new year.

Data: Bloomberg Financial Markets, Reuters

MUTUAL FUNDS



Data: Standard & Poor's

THE WEEK AHEAD

NONMANUFACTURING BUSINESS ACTIVITY *Monday, Jan. 6, 10 a.m. EST* ▶ The Institute for Supply Management's December non-manufacturing-activity index probably edged up to 58%, after jumping to 57.4% in November.

FACTORY INVENTORIES *Tuesday, Jan. 7, 10 a.m. EST* ▶ Manufacturing inventories in November most likely fell 0.2%, after holding steady in October. Inventories appear to be stabilizing, but the clouded outlook over Iraq and the economy means

a restocking of inventories is unlikely early on in 2003.

INSTALLMENT CREDIT *Wednesday, Jan. 8, 3 p.m. EST* ▶ Consumers probably assumed another \$3.9 billion of debt in November. That's based on the median forecast of economists surveyed by MMS International. Borrowing in October grew by just \$1.4 billion. Nonrevolving debt declined by \$1 billion in October, as vehicle sales slowed following their torrid incentive-driven pace of the summer.

EMPLOYMENT *Friday, Jan. 10, 8:30 a.m. EST* ▶ Nonfarm payrolls in December forecast to have increased by 25,000, while factories very likely added payrolls by another 18,000. During November, payrolls were trimmed by 40,000, with 45,000 manufacturing jobs eliminated. According to MMS International, the unemployment rate remained unchanged, after climbing 6% in November, and the average work week is also expected to hold steady at 34.2 hours.

U.S. MARKETS

	DEC. 30	WEEK	YEAR TO DATE	LAST 12 MONTHS
S&P 500	879.4	-1.5	-23.4	-24.0
Dow Jones Industrials	8332.9	-1.4	-16.9	-17.8
NASDAQ Composite	1339.5	-2.4	-31.3	-32.6
S&P MidCap 400	427.5	-1.2	-15.9	-16.9
S&P SmallCap 600	196.0	-1.0	-15.6	-16.3
Wilshire 5000	8333.5	-1.4	-22.2	-22.7

SECTORS

	DEC. 30	WEEK	YEAR TO DATE	LAST 12 MONTHS
BusinessWeek 50*	542.8	-1.0	-25.6	-26.7
BusinessWeek Info Tech 100**	286.0	-2.6	-31.8	-32.8
S&P/BARRA Growth	449.9	-1.5	-24.3	-25.5
S&P/BARRA Value	426.6	-1.4	-22.7	-22.8
S&P Energy	182.7	-2.0	-13.5	-14.0
S&P Financials	297.8	-1.3	-16.2	-16.0
S&P REIT	90.7	0.1	-2.9	-2.9
S&P Transportation	170.1	-0.3	-13.7	-14.3
S&P Utilities	97.7	0.4	-33.0	-33.0
GSTI Internet	74.3	-4.9	-29.2	-28.9
PSE Technology	457.8	-3.1	-33.4	-33.9

*Mar. 19, 1999=1000 **Feb. 7, 2000=1000

BEST-PERFORMING GROUPS

LAST MONTH %	LAST 12 MONTHS %
Gold Mining	26.6
Tobacco	9.7
Paper Products	9.4
Fertilizers & Ag. Chems.	7.3
Metal & Glass Containers	7.1
Metal & Glass Containers	35.2
Gold Mining	26.9
Photographic Products	16.3
Specialty Chemicals	10.8
Divsfd. Metals & Mining	10.1

EQUITY FUND CATEGORIES

4-WEEK TOTAL RETURN	%	52-WEEK TOTAL RETURN	%
LEADERS		LEADERS	
Precious Metals	24.1	Precious Metals	72.3
Latin America	2.7	Real Estate	3.3
Natural Resources	1.5	Diversified Emerging Mkts.	-4.1
Real Estate	0.2	Natural Resources	-5.8
LAGGARDS		LAGGARDS	
Technology	-12.6	Technology	-42.7
Communications	-9.3	Communications	-41.5
Large-cap Growth	-7.0	Health	-31.5
Small-cap Growth	-6.5	Small-cap Growth	-28.7

EQUITY FUNDS

4-WEEK TOTAL RETURN	%	52-WEEK TOTAL RETURN	%
LEADERS		LEADERS	
Van Eck Intl. Invs. Gold A	32.6	First Eagle SoGen Gold	113.4
Am. Cent. Gl. Gold Inv.	29.4	Monterey OCM Gold	100.4
Fidelity Select Gold	28.2	Van Eck Intl. Invs. Gold A	97.3
Gabelli Gold	28.1	Gabelli Gold	92.9
LAGGARDS		LAGGARDS	
ProFunds UltraSemicdr. Inv.	-32.5	ProFunds UltraWrsls. Serv.	-79.8
Apex Mid Cap Growth	-23.2	ProFunds UltraOTC Inv.	-70.3
Reynolds	-22.5	ProFunds UltraSemicdr. Inv.	-69.7
Rydex Electronics Inv.	-22.5	Rydex Dynam. Veloc. 100	-69.4

GLOBAL MARKETS

	DEC. 30	WEEK	YEAR TO DATE
S&P Euro Plus (U.S. Dollar)	839.3	-0.8	-
London (FT-SE 100)	3900.6	-1.1	-
Paris (CAC 40)	3025.1	-1.8	-
Frankfurt (DAX)	2892.6	-3.6	-
Tokyo (NIKKEI 225)	8579.0	0.8	-
Hong Kong (Hang Seng)	9272.3	-3.0	-
Toronto (S&P/TSX Composite)	6617.6	0.1	-
Mexico City (IPC)	6124.5	-0.4	-

FUNDAMENTALS

	DEC. 27	WK. AGO
S&P 500 Dividend Yield	1.81%	1.78%
S&P 500 P/E Ratio (Trailing 12 mos.)	28.4	28.9
S&P 500 P/E Ratio (Next 12 mos.)*	NA	16.4
First Call Earnings Revision*	-1.40%	-1.17%

TECHNICAL INDICATORS

	DEC. 27	WK. AGO
S&P 500 200-day average	961.5	964.2
Stocks above 200-day average	28.0%	28.0%
Options: Put/call ratio	0.71	0.72
Insiders: Vickers NYSE Sell/buy ratio	NA	2.56

WORST-PERFORMING GROUPS

LAST MONTH %	LAST 12 MONTHS %
Semiconductors	-24.9
Semiconductor Equip.	-23.7
Employment Services	-21.5
Wireless Services	-20.3
Movies & Entertainment	-18.9
Multi-Utilities	-
Wireless Services	-
IT Consulting	-
Tires & Rubber	-
Telecomms. Equipm	-

INTEREST RATES

KEY RATES

	DEC. 30	WEEK AGO
MONEY MARKET FUNDS	1.04%	1.05%
90-DAY TREASURY BILLS	1.19	1.18
2-YEAR TREASURY NOTES	1.59	1.72
10-YEAR TREASURY NOTES	3.79	3.92
30-YEAR TREASURY BONDS	4.75	4.87
30-YEAR FIXED MORTGAGE†	5.93	5.93

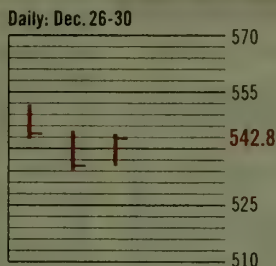
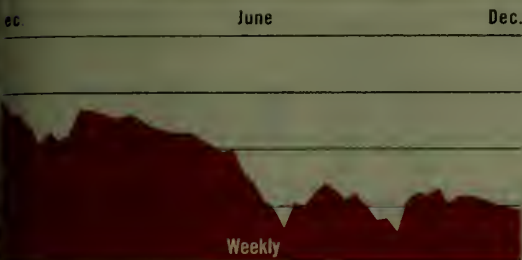
†Bank

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 30% federal tax rate.

	10-YR. BOND
GENERAL OBLIGATIONS	3.74%
TAXABLE EQUIVALENT	5.34
INSURED REVENUE BONDS	3.90
TAXABLE EQUIVALENT	5.57

BUSINESSWEEK FIFTY



BW 50 fell 1.0% for the week ending Dec. 30. The oil producers such as Occidental Petroleum and Marathon led results as investors positioned portfolios for a decline in oil prices once the confrontation with Iraq ended. KLA-Tencor, which makes semiconductor-monitoring equipment, lost 4.7%, a reflection of the performance among tech stocks. Best Buy bucked the trend, shaking off an analyst downgrade to rise 5.3%.

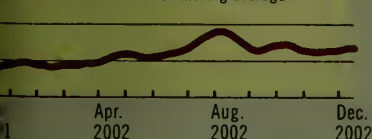
COMPANY PERFORMANCE

COMPANY	% CHANGE		RANK	COMPANY	% CHANGE	
	WEEK	SINCE 3/1/02			WEEK	SINCE 3/1/02
Johnson & Johnson	-2.0	-11.7	26	Tenet Healthcare	1.3	-59.0
Apple Mac	-1.7	-7.4	27	Household International	-0.5	-45.9
Verizon	-1.8	-24.8	28	WellPoint Health Networks	-2.9	15.6
WMA	-1.0	-17.3	29	Washington Mutual	0.0	7.6
Philip Morris	-0.2	-21.4	30	Duke Energy	-1.6	-45.1
KLA-Tencor	-4.7	-38.6	31	Kohl's	3.6	-16.5
Home Depot	-2.0	-16.9	32	Bed Bath & Beyond	1.4	5.7
Home Depot	2.7	-16.4	33	Cardinal Health	-1.7	-11.8
Best Buy	5.3	-47.3	34	Centex	-1.6	-14.2
ResourceBergen	-0.5	-20.7	35	American Electric Power	1.1	-37.2
UnitedHealth Group	-0.8	15.3	36	Golden West Financial	0.1	13.7
UnitedHealth Group	0.8	6.9	37	Stryker	0.1	8.6
Home Depot	-2.1	-52.6	38	Harley-Davidson	-1.6	-11.3
Wal-Mart Stores	1.9	-18.3	39	PepsiCo	0.1	-16.7
Wal-Mart Stores	0.0	-96.0	40	Merck	-0.2	-7.4
General Dynamics	0.2	-13.1	41	Apache	-2.7	8.7
ExxonMobil	-1.2	-17.9	42	Amerada Hess	-0.9	-20.4
3M	-1.5	24.0	43	KB Home	-2.3	-2.7
3M	-2.7	-20.7	44	First Data	-2.2	-12.5
3M	-1.6	-57.7	45	Tyco International	-4.0	-47.3
Occidental Petroleum	-1.5	6.2	46	International Game Technology	0.3	11.3
Occidental Petroleum	0.0	0.6	47	Capital One Financial	-3.6	-38.9
Marathon Oil	-2.0	-8.0	48	Electronic Data Systems	-4.3	-70.0
Marathon Oil	-1.3	-22.5	49	Nabors Industries	-6.6	-1.8
Marathon Oil	-3.4	-16.9	50	Xcel Energy	1.5	-53.7

PRODUCTION INDEX

Change from last week: -0.1%
Change from last year: 3.5%

INDUSTRIAL OUTPUT Dec. 21=163.5 1992=100
The index is a 4-week moving average



Production index posted a narrow decline during the week. Before calculation of the four-week moving average the index fell to 163.8, from 164.4. On a seasonally adjusted basis, three components combined to index lower. Autos and trucks showed significant gains, with electric power production also dropping. Oil refining, coal, lumber, and rail-freight showed gains. Steel output remained unchanged for the week.

For each of the index components is at www.businessweek.com
BW production index Copyright 2002 by The McGraw-Hill

ONLINE RESOURCES

BW 50 Track the index and the companies in it all day long. Plus: our exclusive Info Tech 100 index.

BUSINESSWEEK INVESTING Real-time market coverage and investment tools in partnership with Standard & Poor's.

MUTUAL FUNDS Search for funds, view BW ratings, and read Q&A's with fund managers.

COLUMNS Hot stocks, takeover plays, and the latest strategies for managing your money.

BusinessWeek online

For more investment data and the components of the production index, visit www.businessweek.com

Spend
some
quality
time
with
your
money.



See inside

On-air weekend mornings.
Check your local listings.

To advertise with BusinessWeek TV, contact Janet Schatz, Director of BusinessWeek TV Sales, at 212-512-3011 or janet_schatz@businessweek.com.

www.businessweektv.com

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Abbott Laboratories (ABT) 132
Abercrombie & Fitch (AWF) 124
Accenture (ACN) 129
Acme Metals 106
Adelphia Communications (ADELQ) 36, 40, 86
Advanced Micro Devices (AMD) 119
AES (AES) 103
Aetna (AET) 37, 134
Airbus 105
Alaska Air Group (ALK) 128
Albertsons (ABS) 124
Alitalia 61
Allegheny Energy (AYE) 36
Alliance Capital Management (AC) 132
Amazon.com (AMZN) 124
American Airlines (AMR) 36, 128
American International Group (AIG) 72
American Movie Classics 126
American Re 112
American Skiing 44
Ameritech (SBC) 77
Amgen (AMGN) 133
AMR (AMR) 36
Anheuser-Busch (BUD) 77
AOL Time Warner (AOL) 40, 61, 77, 80, 84, 87, 126
Aon (AOC) 112
Aquila (ILA) 36
Aramark (RMK) 67
ArcSight 117
Arthur Andersen 81, 82, 86, 129
Arthur D. Little 129
AstraZeneca (AZN) 132
AT&T (T) 40, 45, 78, 120, 126
AT&T Wireless (AWT) 120
Aurora Foods (AQR) 36
Autodesk (ADSK) 34
Avon (AVP) 58, 60, 142

B

Bain 134
Baker & McKenzie 103
Banamex 111
Banco Azteca 54
Bank of America (BAC) 34, 110, 111, 116, 118
Bank of Tokyo-Mitsubishi (MBK) 124
Bank One (ONE) 69, 110
Bath & Body Works 124
Bausch & Lomb (BOL) 84
Bayer (BAY) 132
BB&T (BBT) 111
BearingPoint 129
Bear Stearns (BSC) 118
BEA Systems (BEAS) 116
BellSouth (BLS) 120
Berkshire Hathaway (BRK) 70
Bestselmann 81
Best Buy (BBY) 124
Bethlehem Steel (BS) 106
BMW 39
Boeing (BA) 94, 105
BP (BP) 102
Bristol-Myers Squibb (BMY) 80, 132
British Airways (BAB) 61
BroadVision (BVSN) 116
Burlington Northern Santa Fe (BNI) 125

C

Cablevision Systems (CVC) 40, 80
Calpine (CPN) 103
Canon (CAJ) 72
Cap Gemini Ernst & Young 120
CBS (VIA) 64, 126
Cendant (CD) 128
Centex Homes (CTX) 100
Charles Schwab (SCH) 61
Charter Communications (CHTR) 40, 81
Chubb (CB) 112
CIBC World Markets (BCM) 137
Ciena (CIEN) 120
Cingular Wireless 120
Circuit City (CC) 124
Cisco Systems (CSCO) 34, 118
Citigroup (C) 58, 69, 77, 78, 87, 110, 111
Clearview Cinemas (CVC) 80
Coca-Cola (KO) 65, 70
Colgate-Palmolive (CL) 72
Comcast (CMCSK) 126
Commodity Metals Management 106
Compaq Computer (HPQ) 54, 62, 63
Computer Associates (CA) 87
Conseco (CNCEQ) 36, 92
Corning (GLW) 36, 45
Costco Wholesale (COST) 69, 137
Cox Communications (COX) 40
Credit Suisse First Boston (CSR) 82, 110, 132
Crested Butte Mountain Resort 44
Cross Country (CCRN) 137

D

DaimlerChrysler (DCX) 39, 104
Dell Computer (DELL) 62, 118
Deloitte Research 94, 124
Delta Air Lines (DAL) 128
Deutsche Bank (DB) 32, 54, 102, 128
Deutsche Telekom (DT) 120
DirecTV (GMH) 14, 69, 126
Donaldson Lufkin & Jenrette 37
Dow Chemical (DOW) 43
Duke Power (DUK) 90
Duncan Hines 36
DuPont (DD) 43
DWS Investment 32
Dymegy (DYN) 36, 82, 103

E

Eastman Kodak (EK) 77
EasyLink Services (EASY) 37
eBay (EBAY) 68, 72, 124
EchoStar Communications (DISH) 40, 69, 126
Economy.com 94, 120, 134
EcomSoft 24
Electronic Data Systems (EDS) 78, 129
Eli Lilly (LLY) 38, 132
EMC (EMS) 118
Employers Re 112
EM.TV 86
Enron (ENRNQ) 58, 78, 79, 81, 82, 86, 90, 103, 112, 129
Enterprise Storage Group 118

Equity Office Properties Trust (EOP) 101
Ernst & Young 112
EW Simulation Technology 137
Expedia (EXPE) 68
ExxonMobil (XOM) 102

F

FAO (FAOQ) 36
Federated Department Stores (FD) 124
FedEx (FDX) 125
Fitch Ratings 36, 100, 112
FleetBoston (FBF) 110, 111
Ford (F) 39, 61, 67, 104
Forrester Research (FORR) 124
Fox Entertainment (FOX) 69, 126
Fulcrum Global Partners 137

G

Gap (GPS) 77, 124
Gartner (IT) 116, 118
Genentech (DNA) 133
General Electric (GE) 77, 92, 112, 126
General Motors (GM) 39, 43, 61, 67, 69, 70, 104
General Re 112
Gillette (G) 70
GlaxoSmithKline (GSK) 132
Global Crossing (GBLXQ) 36, 81, 87
Goldman Sachs (GS) 63, 94, 104, 110, 116
Grey Global Group 127
Greyhound Lines (LDWIF) 36
Gruner+ Jahr 84
Grupo Elektra (EKT) 54

H

Halliburton (HAL) 43, 102
HC Wainwright 106
HDNet 14
Helios Consulting Group 127
Hennes & Mauritz 63
Herley Industries (HRLY) 137
Hershey Foods (HSY) 84
Hewlett-Packard (HPQ) 62, 63, 77, 118
Home Depot (HD) 63, 92
Honda (HMC) 39
Honeywell International (HON) 43, 77
Hughes Electronics (GMH) 40
Humana (HUM) 134
Human Genome Sciences (HGS) 133
Hutchison Whampoa (HUW) 67
Hyseq (HYSQ) 133

I

IBM (IBM) 65, 77, 116
IDC 116, 118, 119
ImClone Systems (IMCL) 58, 80, 86, 87, 132
In-Q-Tel 117
In-Stat/MDR 121
Intel (INTC) 62, 119
International Data Group 22
Interpublic Group (IPG) 61
Intrawest (IDR) 44
Intuit (INTU) 92
ISI Group 32

J

JetBlue Airways (JBLU) 128

J.M. Dutton & Associates 37
Johnson & Johnson (JNJ) 77, 132
J.P. Morgan Chase (JPM) 79, 110

K

Kettler Forlines Homes 100
Kmart (KM) 36, 77, 81, 124
Kohl's (KSS) 124

L

Laura Ashley 63
Lazard 125
Lehman Brothers (LEH) 102, 124
LG Electronics 121
Liberty Media (L) 126
Locker Associates 106
L'Oréal (LORLY) 66
Lowe's (LOW) 58, 63, 92
LR Development 100
LTV 106
Lucent Technologies (LU) 36, 77
Lufthansa (DLAKY) 61

M

Matsushita Electric Industrial (MC) 121
Maxim Integrated Products 34
MCA Music Entertainment 126
McCann-Erickson Worldwide 61
McDonald's (MCD) 50, 58, 81
MCG Capital (MCGC) 84
McGraw-Hill (MHP) 138
MDC Holdings (MDC) 100
MediaCom Worldwide 127
Mercedes-Benz (DCX) 39
Mercer Delta Consulting 129
Merck (MRK) 132
Merrill Lynch (MER) 78, 110, 111, 118, 120, 121
Metris (MXT) 36
Metro-Goldwyn-Mayer (MGM) 126
Microsoft (MSFT) 34, 68, 70, 72, 81, 116, 118
Mirant (MIR) 36
Mitsubishi Motors 127
Montgomery Securities 110
Moody's Investors Service (MCO) 36, 54
Morgan Stanley (MWD) 100, 126
Motorola (MOT) 77, 119
Munich Re 112

N

National City 110
National Westminster 86
NBC (GE) 64, 80, 126
Neiman Marcus (NMG) 124
News Corp. (NWS) 69, 126
Nextel Communications (NXTL) 70, 120
Nextrend 39
Nissan (NSANY) 39
Nokia (NOK) 70, 120
Nordstrom (JWN) 124
Nortel Networks (NT) 36
Norwest 68
NPD Funworld 121
NRG Energy (XEL) 36
Nucor (NUE) 100

O

Oracle (ORCL) 70, 79, 116
Overstock.com (OSTK) 124

P

Pacific Gas & Electric (PCG) 103
Pacific Sunwear (PSUN) 124
Palm (PALM) 118
PayPal (EBAY) 72
PeopleSoft (PSFT) 116
PepsiCo (PEP) 65
Peregrine Systems (PRGN) 79
Perseus-Soros BioPharmaceutical Fund 133
PFC 102
Pfizer (PFE) 132
Pharmacia (PHA) 82
Philip Morris (MO) 77
Phillips Electronics (PHG) 121
PNC Advisors 134
Porsche (PSEPF) 39
PricewaterhouseCoopers 126, 128
Procter & Gamble (PG) 58, 67, 72, 142

Q

Quick & Reilly (FBF) 111
Qwest Communications International (Q) 36, 77, 79, 80, 81, 87

R

Rational Software (RATL) 116
RCN (RCNC) 81
Resources Connection 129
Revlon (REV) 127
Rite Aid (RAD) 86
RoyalDutch/Shell Group (RD) 102
RRC Associates 44
RTL Group 81

S

Salomon Smith Barney (C) 87
Samsung 121
Sanford C. Bernstein (AC) 77, 124
Santander Central Hispano (STD) 111
SBC Communications (SBC) 69
Schering-Plough (SGP) 82, 132
Schlumberger 102
Schneider National 125
Sears Roebuck (S) 124
Sharp 121
Sidoti 137
Snapple 127
SONICblue (SBLU) 126
Sony (SNE) 64, 121
Southwest Airlines (LUV) 70, 128
Standard & Poor's (MHP) 34, 36, 48, 105, 138
Starbucks (SBUX) 50
State Street Bank (SST) 32
Steelcase (SCS) 100
Sun Microsystems (SUNW) 65, 118
Swiss Re 112
Symantec (SYMC) 65, 116

T

Taiwan Semiconductor Manufacturing (TSM) 119
Target (TGT) 124
Teal Group 105

Tenet Healthcare (THC) 134
Texas Instruments (TXN) 124
Tetrad (TXT) 94
3M (MMM) 92
321 Studios 24
Tibco Software (TIBX) 11
Tigris Consulting 129
Time Warner Cable (AOL) 120
T-Mobile International (D) 120
Toll Brothers (TOL) 100
Tomen 48
Torto Wheaton Research
Toyota (TM) 39, 48, 61
Toyota Tsusho 48
Travelocity (TSG) 68
TRW (TRW) 77
Tyco International (TYC) 58, 77, 86
Tyumen Oil 102

U

UAL (UAL) 36, 63
UFI Holdings 48
ULLICO 87
United Airlines (UAL) 14
United Parcel Service (UPS) 125
Universal McCann 126
Universal Studios (V) 126
USA Interactive (USAI) 68
US Airways (U) 128
U.S. Bancorp Piper Jaffray (USB) 110

V

Vail Resorts (MTN) 44
Variagenics (VGNX) 133
Veritas Software (VRTS) 126
Verizon Communications 45
Viacom (VIA) 64
Vitria Technology (VITR) 126
Vivendi Universal (V) 58, 77, 80, 84, 126
Volkswagen (VLKAY) 39

W

Waddell & Reed Financial (WDR) 34
Wal-Mart Stores (WMT) 69, 72, 124
Walt Disney (DIS) 65, 77, 126
Warner Brothers (AOL) 64
Waste Management (WM) 101
Webcor Builders 101
Wells Fargo (WFC) 68, 101, 111
William Blair Small Cap Growth Fund (WBSGX) 126
WorldCom (WCOEQ) 36, 77, 81, 82, 86, 87, 90.

X

Xerox (XRX) 36, 90
Xilinx (XLNX) 119

Y

Yahoo! (YHOO) 67
Yankees Entertainment & Sports Network 80
Yellow (YEL) 125

Z

Zenith Optimedia Group

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$59.97/year; Canada: CDN \$94.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Canada Post Publication Mail Agreement Number 4001. Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO. 80322.

MARKETPLACE

For Ad Rates and Information
Phone: (312) 464-0500
Fax: (312) 464-0512

Distance Learning

Distance Learning Degree Programs

California Pacific University
Off-Campus. Approved BBA, MBA, DBA. Programs in Business or Health Administration at the Masters level. Write: E. Grand Ave., Escondido, CA 92025 760-739-7730 or 800-458-9667 Visit: www.cpu.edu

Advanced Learning

Get Your MBA Through Distance Learning

Distigous British University Accredited under Royal Charter
One of the World's Largest Distance Learning MBA Programs
Necessary Study Materials Provided
Access To On-Line Facilities
Support From Local Resource Centers and Student Networking
Flexible Financing & Payment Plans Available



Today: 800-874-5844 visit www.rdi-usa.com

rdi

Golf

WINTER GOLF?

An MEE sliding doors, rigid enclosure will transform your golf cart to be as comfortable as your car

Visit
www.meeinc.com
for information

Advanced Learning

ABSOLUTELY FREE EVALUATION

Bachelor's -- Master's -- Ph.D. Degrees

Based on life and work experience. Confidential -- Fast -- Student Loans. www.arcc.org

800-951-1203

Business Software

timeclock software

Stop Spending Too Much on Payroll.

- Fully PC Based Software
- Track Payroll, Attendance, & Benefits
- Easily Monitor Overtime
- Reduce & Eliminate Payroll Errors

Complete Systems As Low As \$99.95

1-800-456-2622

Free Trial & Brochure Available

Copyright 2002-2003 Forte Systems, All Rights Reserved



www.etimeclock.com

Forté systems

COLLEGE OF BUSINESS

Accredited by AACSB International

MBA PROGRAMS

MASTER OF BUSINESS ADMINISTRATION (MBA)

- Accommodating the needs of full and part-time students.

EXECUTIVE MBA (EMBA)

- A program designed for working executives and professionals.

DUAL MBA/MS HOTEL ADMINISTRATION

- Providing industry-specific graduate education.

For more information contact us at
(702) 895-3655 or visit our web page at
www.unlv.edu/Colleges/Business/



Business/Career Opportunities

EXECUTIVE CONSULTING

Manage local office offering unique financial services for lawsuit protection and tax savings. Huge income with residuals. Local appointments available. No selling required. Talk to existing consultants. 24-hr. recording
(800) 653-4497

SIX FIGURES...

Plus Car & Home Benefits
Billion \$ Int'l Health Corp. from Japan. Unlimited Earning Potential from Your Home Office.
For Business Ownership details, call
800 783-7494

The current **SLOW** economy is making **BIG MONEY** for loan and leasing brokers!

Business Loans • Equipment Lease
OWN YOUR OWN BUSINESS LOAN COMPANY
No experience needed...We support you!

RECEIVE A **FREE** 45 MINUTE VIDEOTAPE SEMINAR
FULL COLOR INFO PACKET & BROCHURE

CALL TODAY 800-336-3933
www.viewtlc.com
The Loan Consultants, Inc.

Computer Cables/Accessories

KRISTAMICRO.COM

150 page Catalog!
Visit our website

WIDE SELECTION OF
COMPUTER CABLES AND ACCESSORIES
USB CABLES, CAT 5E, VGA, FIREWIRE, PRINTER, PS/2, SERIAL, AND MORE.

Key Code: 200

Business Services

Need a Logo?

mylogo Get a Professional Custom Designed LOGO TODAY!
Visa/MC/Amex
Toll-Free: 1-888-869-5646
www.1800mylogo.com

Investment Opportunities

EARN SUBSTANTIAL INCOME!

Split **BIG** Profits by Locating Foreclosed Property in Your Area!

- ✓ Use Our Money!
- ✓ No Experience Needed!
- ✓ No Financial Risk to You!
- ✓ Complete Training Provided!
- ✓ Unlimited Earning Potential!

Nation-Wide Real Estate Opportunities

For **FREE** Info, Call (800) 331-4553 x-570

WHAT'S MISSING FROM THE DIVIDEND DEBATE

When President George W. Bush unveils his economic stimulus plan later this month, one key component will almost certainly be a proposal to reduce double taxation of dividends. Currently, companies pay taxes on their profits, and then stockholders pay taxes on whatever portion of those profits is paid out in the form of dividends. Bush is likely to propose allowing individuals to exempt fully half of their dividend income from income taxes (page 34). That would be beneficial for many high-income taxpayers who have big stock portfolios, effectively bringing the tax rate they pay on dividends down to roughly 20%, about the same as the rate on capital gains. Alternatively, the Bush Administration may simply tax dividends at the capital gains rate.

In theory, such a reduction—long advocated by many conservative economists, including Council of Economic Advisers head R. Glenn Hubbard—makes some sense. In the short run, a lower tax on dividends could boost the stock market by making dividend-paying stocks more attractive. Over the long haul, such a cut would lower the effective rate of taxation on capital, which would boost aftertax returns on investment and encourage capital spending.

Reducing the tax on dividends would also lessen the incentive for companies to raise money through borrowing rather than equity issues. Today, interest payments on debt are deductible from income, while dividend payments on stock are not. In part, that explains why corporate debt soared in the 1990s, while—despite all the attention given to initial public offerings—the net issuance of stock was actually negative. In fact, companies bought back roughly \$570

billion in stock from 1998 to 2000, even taking into account the shares issued by the dot-coms and other IPOs. That encourages ever-increasing leverage in the corporate sector, which makes the financial system more unstable.

But let's not deceive ourselves. Even as economists complain about double taxation of dividends, corporations have been aggressively taking advantage of a variety of loopholes and complicated tax dodges—including moving their headquarters overseas—to lower their tax bills. That's a big reason why corporate income taxes have steadily fallen from 12% of federal revenues in 1997 to less than 10%. These strategies have helped make average Americans even more cynical about the tax system.

So if Bush wants to help the economy in the long term, he should combine a reduction in the dividend tax with new legislation against legal but questionable corporate tax shelters. Also needed is much more active enforcement against legal corporate tax dodging. Companies should be forced to disclose when they undertake transactions simply to evade taxes, while facing stiffer penalties for tax-evasion maneuvers later deemed to be unlawful. In addition, it should be made more difficult for companies to claim a headquarters overseas for tax purposes when their real decisions are made here.

Indeed, any cut in the dividends tax should be part of a broader move toward simplification of a far-too-complicated tax code. Such a combination—lower taxes on dividends and lower tolerance for corporate tax chicanery—would produce a simpler, more efficient, and fairer tax system. That's something everyone can support.

HOW MANAGERS CAN HIT A HIGHER MARK

In 2002, the best managers were the ones who were able to cope with a sluggish economy at home and uncertain conditions around the world. Executives such as Andrea Jung, chief executive of Avon Products Inc., and Alan G. Lafley, head of Procter & Gamble Co., kept their companies moving forward despite a strong head wind (page 58).

But let's take a step back and look at the overall track record of America's corporate executives since the mid-1990s, when the Information Revolution really took hold. The fact is, top management at U.S. companies has done pretty well in some ways but has fallen far short in others. In terms of using investments in info tech to boost productivity and cut costs, U.S. managers clearly got it right. They were willing to take risks on new technology and new ways of doing business, and the result—a 25% rise in productivity at nonfinancial corporations since 1995—is the envy of the world.

In terms of reaping the gains of the productivity boom for shareholders, though, America's managers deserve a much lower grade. Chief executives handed out big pay packages to

themselves and other top managers, and often padded the bottom line with questionable accounting. Overall, the profits of financial corporations today are only 6% more than they were at the beginning of 1995, despite all the improvements in productivity. By contrast, the amount paid out in wages, salaries, and benefits for all employees has gone up by 45% over the same stretch.

The question is what happens next. America's corporate managers need to learn two lessons from the last several years. First, they need to know that their willingness to take risks during the 1990s really was beneficial. Right now, many giant CEOs are unwilling to make capital outlays. But executives need to remember that the big investments in information technology in the 1990s paid off with higher productivity, and should be encouraged even in today's uncertain environment.

At the same time, though, executives have to pay a lot more attention to delivering value to shareholders—not just higher share prices but actual higher profits. That's the true measure of a manager.

VISIONARY/CONSULTANT

the presentations
new prospects
a step ahead
the calls
quality time for family

DIRECTOR OF COMMUNICATIONS

Prints color and B/W documents
Copies all documents or bound reports
Faxes are received on plain paper
Scans in color at the touch of a button
Makes you look good

MFC-5200c
COLOR FLATBED MFC
About \$349

Multi-Function Center Models Everything. Just Like You.

matter where or how you work, our all in one MFC's are
igned to work for people like you. And with over 10 PC or Mac
patible models to choose from, finding the one with the
ormance and price you're looking for is easy.

e even have the ability to print from your digital camera
a card! If you need a multi-function solution that works
st as hard as you do, you don't need five separate machines,
ou need is the right one.



RIETY OF MODELS AVAILABLE AT: Office Depot, OfficeMax, Staples, J&R ComputerWorld, Global Computer Supplies, MicroCenter,
s, PC Connection, MicroWarehouse, CDW, Insight, PC Mall, Quill, Viking, Dell, Amazon.com, Gateway.com, Buy.com and 4Sure.com

At your side.™

brother®

© 2002-2003 Brother International Corporation, Bridgewater, NJ • Brother Industries Ltd., Nagoya, Japan
For more information please call the Brother Fax-Back System at 800-521-2846 or visit our web site at www.brother.com

The following interview is part of the Heidrick & Struggles' Leadership Capital series covering the key issues facing corporate leaders today on the topics of governance, leadership and human capital. Previous articles in this series have focused on the specific skills, competencies and challenges for each senior-level management role.

Contact CEO@Heidrick.com for reprints.

FOCUS ON:

The Board of Directors' Role in CEO Succession



An interview with

John Thompson

Vice Chairman

Heidrick & Struggles

What is the Board's role in CEO succession planning?

Boards of directors have always been responsible for CEO succession planning. In fact, the evaluation and selection of the CEO is the board's second most important governance function, after fiduciary responsibility. The best way to handle this critical task is to be objective and thorough. A board that approaches the task wearing blinders, burdened by outdated perceptions, or laboring under unexamined assumptions is not acting in the best interests of shareholders. To be effective stewards for shareholders, the appropriate board committees need to partner with an expert advisor to apply a strategic, disciplined and stringent approach to identifying and developing the top executive of the organization.

Boards and CEOs need to have a clear understanding of the leadership talent in the marketplace, and the alternatives available should there not be viable internal candidates. Sound corporate governance suggests that an incumbent CEO would not likely lead an outside search for a successor, rather, an independent director or the head of the Corporate Governance Committee would be more likely to take the lead. The CEO working with the board should be keenly aware of the early signs of leadership potential in their top executives and be closely involved in developing the skills and talents of those people to achieve the long-term objectives of the business. Identifying, assessing, and developing leadership potential, and building a sustainable leadership pipeline, are critical components of succession planning.

How should boards approach CEO succession? When is the right time to do succession planning?

Any top executive's departure has a significant impact on an organization's strategy, operations, culture, morale, and ability to execute against objectives. As boards search for a CEO successor, they must bear in mind that that impact is magnified when the departing executive is the CEO.

The reasons for a CEO's departure fall into four broad categories:

- 1) The CEO leaves to join another company;
- 2) The CEO retires or takes an extended leave of absence;
- 3) The board decides that the organization requires a CEO better suited for the current environment or for likely changes in strategy or market conditions; or
- 4) The organization's board or its controlling investors decide to dismiss the CEO or are nearing a decision to do so.

The first two of these reasons could be classified as reactive—that is, the departing executive drives the event and the company must respond in some way. The last two scenarios are typically proactive approaches by the board. Let's consider the challenges and opportunities each scenario presents:

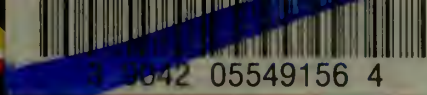
Reactive Executive Succession

The CEO leaves to join another company; the CEO retires or takes an extended leave of absence.

A board's ability to conduct effective succession planning depends on a variety of factors, but most salient is the amount of time it has to react. A board seldom can identify and enlist a permanent CEO with two weeks' notice. Even two months is questionable. Ideally, succession planning has started months or years before the time comes to replace the CEO. That is the strongest case for succession planning: to increase your time to react and broaden your portfolio of alternatives.

There are several options for boards when the need to replace a CEO exists, including "going to market" to recruit the appropriate skills and competencies to fill the position, or tapping or developing existing internal talent. Unless strategic succession planning has been in place for a while, boards may have little choice but to recruit an outsider. One of the most compelling reasons for a board to partner with an executive search firm to identify a CEO is the upfront needs-assessment review. The board emerges from this broad-based due diligence with an enriched understanding of objectives for the planned organization, the competitive backdrop, and the skills and competencies necessary to lead the company going forward. Using tools to benchmark and assess CEO talent, the process dramatically enhances the board's ability to make an informed choice among outside prospects.

If there are viable internal candidates, boards may choose to invest in developing this talent. Companies lacking adequate internal structures or resources will frequently outsource professional development activities. Boards that intend to develop a CEO internally often promote the internal candidate to a stepping-stone post such as Chief Operating Officer or another top level position to gauge leadership ability. Other boards may opt to appoint an interim CEO, who may or may not be a current board member. Again, the more time a board has in these reactive situations, the better.



BusinessWeek

20, 2003

www.businessweek.com

CLASS WARFARE?

PAGE 26



Suppose Bush's tax plan works:
It raises long-term growth, reduces unemployment, boosts workers' wages, and eventually cuts a rising deficit to manageable levels. Good, right?

Now also suppose the rich get richer, and income equality gets worse. Time to vote:

- ☐ Favor the Bush plan.
- ☐ Oppose the Bush plan.

#BXBBGDD ***CR LOT 0006A*C030
#LBRLP000097 1#302496 BX000358

BURLINGAME
BURLINGAME PUBLIC LI
480 PRIMROSE RD
BURLINGAME CA 9

JAN 13 2003

There I was face to face
with a Malayan tiger.

It was brown in garlic and bitter.



Okay, if you really want to put your life on the line, the new V8-powered GX is more than capable of taking you to the kinds of places where danger lurks at every corner. But we expect most of you will appreciate the GX for what it really is: a luxury utility vehicle with all the amenities, for a new kind of adventure. One that leads to that unique little getaway where the only risk you're likely to face is giving up your seat.

Lexus



*How can
the company that brings you*

**THE BEST VOICE & DATA
TECHNOLOGY & SERVICES**

bring you to

BUSINESS NIRVANA?

HAS YOUR COMPANY realized its full communications potential? Have voice and data married harmoniously on your network? Are your employees happier, more productive and more accessible? Can you sit like me? Kidding. It's not required. Read on. Perhaps there is opportunity for your business to reach the next level.

**world leader in
enterprise telephony**

In Avaya, you'll find deep experience and leadership in voice communications brought to the world of IP. Here, you'll be provided with one of the most reliable, secure ways to bring voice over your data network. With one of the strongest sets of voice apps anywhere. Things like IP telephony, extension to cellular, and 6-party conferencing. This stuff is so cool you won't want to hide it in the closet. And you can begin to feel the savings of IP convergence for about the cost of a standard PBX upgrade. There are also fewer obstacles on that path to IP telephony. Avaya Enterprise Class IP Solutions (ECLIPS) are open standards-

based, to integrate into your current network. Your path and your pace are always respected.

**master of worldwide
contact centers**

In the state of Avaya, the multimedia contact center is vital to the well-being of the organization. It allows you to interact with customers regardless of channel, and get insightful reporting and analysis. That helps you serve people the way they want to be served. Reports of happier, more loyal customers have been confirmed. All thanks to the world's foremost provider of contact centers.

#1 in voice messaging

Over 100 million voice mailboxes in use. Now we take you to a new level of mobile productivity—Unified Communication. Imagine—speech and wireless access not just to messages but to email, global directories, conference calls and calendars. You can service clients from anywhere, via any device. A fluid convergence of technologies that frees the spirit and cuts the cord to the desk. Good karma abounds.

**most comprehensive
global services**

In the state of Avaya, you can choose from any or all of our services. From network assessment and design to integration and implementation, all supported by the world's best management and maintenance services. Avaya Global Services provides multi-vendor, multi-technology expertise, with the deepest experience in voice and more than 18 years of data experience. Glitch in the network? It gets fixed. Often, without anyone on your end even knowing about it. In the state of Avaya, diagnostics begin within 90 seconds, and 96% of all alarms are resolved remotely.

repeat after me...

Avaya. Avaya. More than a communications company. The next level for businesses to operate on. If none of this page was news to you, you're there. If not, reach for the phone. And reach Avaya. It's a higher plane of communication. Avaya.com/state or call 866-GO AVAYA today.



Enterprise Rent-A-Car wanted to reduce operations by
1.7 million vital documents onto their intranet.

Learn more: www.xerox.com/learn For a sales rep: 1-800-ASK-XEROX ext. 144

© 2002 XEROX CORPORATION. All rights reserved. XEROX® The Document Company® and There's a new way to look at it are trademarks of XEROX CORPORATION.
Enterprise® is a trademark of Enterprise Rent-A-Car Company



ts. Xerox found the key to success by moving
ry month. **There's a new way to look at it.**

THE DOCUMENT COMPANY
XEROX®

COVER STORY

CLASS WARFARE?

Bush's tax plan could boost growth and create jobs—but the price is an increase in income inequality

page 26



REFORMER

The man behind plans to repeal the

dividend tax page 31

BusinessWeek

JANUARY 20, 2003

Cover Story

26 CLASS WARFARE?

The Bush economic stimulus plan could raise long-term growth, reduce unemployment, and boost workers' wages—and eventually trim the rising deficit to manageable levels. It would also widen the disparity between rich and poor. But the global economic landscape has changed—and the earlier rhetoric of rich vs. poor, investor vs. worker may turn out to be obsolete

30 YES, THERE IS SOME FINE PRINT

New rules would take aim at corporate tax shelters and give tech investors capital-gains relief

31 TENACIOUS TAX REFORMER

R. Glenn Hubbard sought to end the tax on dividends in 1992. Now he may get his wish

32 A BATTLE ALREADY LOST?

The Dems may be misreading voters' aspirations by railing against a plan aimed at investor interests

36 COMMENTARY: DIVIDENDS

Top tech companies have billions in cash, yet most pay no dividends. Will Bush's tax plan change that?

37 PLAYING THE DIVIDEND CUT

If Bush's plan passes, you may need to do more than just rebalance your assets

News: Analysis & Commentary

38 COMMENTARY: FOREIGN POLICY

White House inconsistencies are disconcerting, but they signal a healthy shift toward multilateralism

40 COMMENTARY: THE FCC

Powell's proposed reforms for local residential phone markets may not be so crazy after all. But regional Bells need to update their systems

41 IN BUSINESS THIS WEEK

International Business

44 NORTH KOREA: THE OTHER CRISIS

What it would take to salvage the shattered economy—and block the machinations of desperate dictator Kim Jong Il

52 JAPAN: DEFENSE

North Korea's saber-rattling has it thinking about going nuclear

53 EUROPE: THE ECONOMY

Things looked gloomy enough before Christmas. Now, the growth outlook is grimmer than ever

54 AUTOS: ROLLS-ROYCE

BMW has bet big with its first model as owner of the market

55 INTERNATIONAL OUTLOOK

Is OPEC about to lose control of the spigot?

Economic Analysis

22 ECONOMIC VIEWPOINT

Barro: Bush's tax cuts bring the spirit of Reaganomics

23 BUSINESS OUTLOOK

U.S.: Will oil worries send economy skidding?
Germany: The government's economic options

Government

42 WASHINGTON OUTLOOK

How Dr. Frist, the new Senate Majority Leader, could buck the Republican Party

Finance

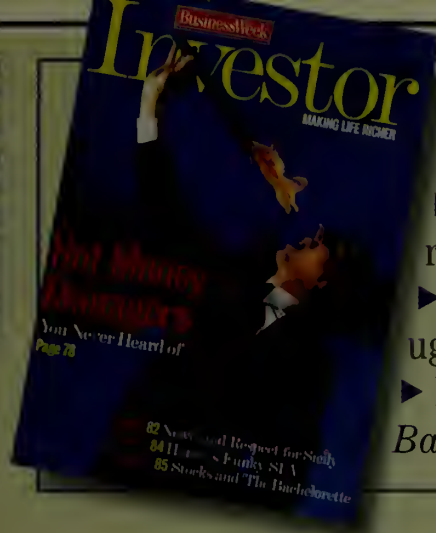
56 A CPA'S WORST FRIEND?

Accountants are blaming their own trade group and its campaign against reform last year for congressional backlash

ONE WORK
big bet on
al jets is
g off page 62



**REELING
IN KOREA**
While Kim
blusters,
the North's
economy
edges closer
to collapse
page 44



► Money mavens
to meet page 78
► Sicilian wines'
resurgence page 82
► Honda's beautiful
ugly SUV page 84
► Barker and *The
Bachelorette* page 85



SURVIVAL KIT
Five rules for
traversing the new
Mad Ave page 72



VIALE OPTIONS
A new book promotes the value
of options for everyone page 65



GIZMO GUY
Bill Gates covets
your wrist, fridge,
key chain... page 68

COMMENTARY: THE SEC

mutual funds could stand a little
masking

COMMENTARY: STOCK RESEARCH
not only analysts are to blame for
ty research

Affairs

SPORT REFORM—BIT BY BIT

obbyists for Corporate America
e pursuing smaller changes—
at could add up to a big shift

orporation

REGIONAL JETS: GE ROARS AHEAD
s aircraft unit saw early on
hich way the wind was blowing.
ow it's cleared to land in China

Excerpt

TIONS: THE RIGHT WAY TO GO
the *Company of Owners* urges
e rest of Corporate America to
py high tech's options-for-all

mation Technology

LDSTROM: TECHNOLOGY & YOU
ew software that "visualizes" data
ves a richer picture

68 MICROSOFT'S NEXT FRONTIER

Its Spot technology to send data to
chips is clever, but the gadgets are
on the goofy side

69 JAPAN'S SILICON STAMPEDE

With a flurry of mergers and a
renewed research push, its chip
sector is trying to regain some glory

70 THE STRENGTH OF SAMSUNG

Secrets of its chip success

Marketing

72 THE TOP 5 RULES OF THE AD GAME

You can't go wrong with network
TV, and other words to live by

BusinessWeek Investor

77 DIVIDENDS

Risk-averse mutual funds; spy stuff
in D.C.; the hottest heater around

78 HOT FUND MANAGERS

A peek at the best of the private-
account professionals

80 TRACKING PRIVATE FUNDS

Morningstar has compiled a
database for this elusive market

81 COMMENTARY: STOCKS

In small-cap investing, indexing
beats the pros

82 SICILY'S WINE RENAISSANCE

New processing techniques put the
island back on the wine world's map

82 MATCHING STEMWARE TO GRAPE

The right glass makes a difference

83 COME FLY WITH THEM

A Marquis Private Jet Card: The
next best thing to your own plane

84 HONDA'S UGLY BEAUTY

The Element SUV targets Gen Y,
but it's likely to find fans of all ages

85 THE BARKER PORTFOLIO

What can investors learn from
ABC's *The Bachelorette*? Plenty

86 INSIDE WALL STREET

Features

10 UP FRONT

14 READERS REPORT

18 BOOKS

Linklater: *Measuring America*

88 FIGURES OF THE WEEK

90 INDEX TO COMPANIES

92 EDITORIALS

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

Updated every business day at www.businessweek.com



Visit the BusinessWeek 50 area of our site for news, investing tools, and more at www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ ADDED CAPACITY:

Network Appliance CEO Dan Warmenhoven on what's ahead for the storage sector



■ HIGHS AND LOWS:

Susan Berfield explains why BW's annual ranking of managers now also includes the worst



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

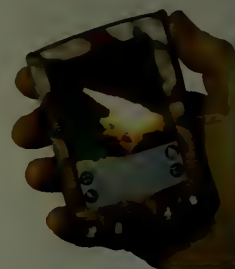
Put us on your handheld! Get news from Daily Briefing, S&P data, and more. Visit AvantGo.com to sign up



Find quick links to everything on this page at the Jan. 20, 2003, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/03_03/online.htm

Battlefield Networks

The Pentagon's vision for "network-centric warfare" aims to meld weapons systems and people into a whole that's far greater than the sum of its parts. This Special Report examines its prospects



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

Analysis: Call it the invisible Democratic primary of 2003, where the battle for money, recognition, and endorsements is already raging



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Street Wise: Improvement in Latin America's economic picture depends largely on what happens in the U.S. and even more so in Brazil

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

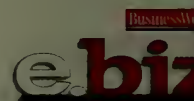
Smart Marketing: An ad agency responds to rivals by giving clients a clear idea of what it can do for them



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Analysis: Lucent's new network-optimization tool, Ocelot, marks a shift in its approach to turning technology into products—and maybe even profits



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

Q&A: Univ. of Chicago B-school Admissions Director Don Martin discusses how applicants can stand out

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

Analysis: As Fiat becomes more of a wreck, and GM looks to get out, Italian Prime Minister Berlusconi may resort to a government bailout

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Analysis: In a two-part series, a panel of experts forecasts hiring prospects across the economy for 2003



EVER NEED CONSULTANTS TO FIGURE OUT HOW MUCH YOUR CONSULTANTS COST?

Only PeopleSoft Enterprise Service Automation delivers proactive control over outside services spending.

PeopleSoft ESA is the only complete solution for managing the expense of outside contractors, consultants, and temps. It enables you to know exactly who's doing what and how much it is costing. And PeopleSoft ESA matches the right skills to the right projects in real-time. So you minimize outside services spending, while maximizing its value.

Learn more by visiting us at www.peoplesoft.com/esa or call 1-888-773-8277.

Customer Relationship
Management

Supply Chain
Management

Enterprise Service
Automation

Financial Management
Solutions

Human Capital
Management

PeopleSoft®

Up Front

EDITED BY SHERIDAN PRASSO

WHEELER-DEALERS

LIPPER II: JUDGMENT DAY

THE HEATED SCENE IN A NEW York State Supreme Court room on Jan. 7 was fitting for the Academy Award-winning film producer Kenneth Lipper. But the man, who has become even more famous for running a hedge fund that allegedly lost more than \$315 million belonging to some of the country's rich and famous, wasn't there. He let his lawyers duke it out with his irate in-

Walt Disney Chairman and CEO Michael Eisner, Senator Ernest "Fritz" Hollings (D-S.C.), New York Reserve Bank Chairman William McDonough, and members of the Tisch family, which controls Loews Corp.

Some new names were revealed on Jan. 7. They include *Today Show* host Matt Lauer; actor Liam Neeson; former Federal Reserve Board Chairman Paul Volcker; co-founder of the Hard Rock Cafe chain Peter Morton; Hollywood film producer Jerry Bruckheimer; and artist Frank Stella, on behalf of the Barnett & Annalee Newman Foundation.

As *BusinessWeek* first reported in the cover story "The Fallen Financier" on Dec. 9, the plan to refund investors is hotly contested, since investors who entered the fund more recently would get more of their money back than earlier investors.

Doling out the remaining 25% will be more contentious. Investors are dickering over the methodology used to value the assets and determine how much

they should get back.

Other remaining issues are whether Lipper should be removed as liquidating trustee and whether he should return performance fees. "Lipper is rewriting the portion of history that allows him to hurt investors yet keep his ill-gotten gains," says Mark Ressler, an attorney for several investors. The judge is expected to release a plan in the next few weeks.

It's unclear if Lipper will be charged with any crimes. The Securities & Exchange Commission and other regulators are continuing to investigate his firm. *Marcia Vickers*



vestors and their attorneys over how to get their money back.

Possibly because the amount of money in dispute is so great, and the names of the affected so prominent, Judge Karla Moskowitz ruled that Lipper has to start refunding his investors by early February. She ordered that 75% of the already liquidated assets of two Lipper Convertibles funds be returned. That's about \$250 million, based on the lower of two valuation methods. Lipper's high-profile clients include actress Julia Roberts,

TALK SHOW "If you're going to stab people, first you've to give them a ham sandwich."

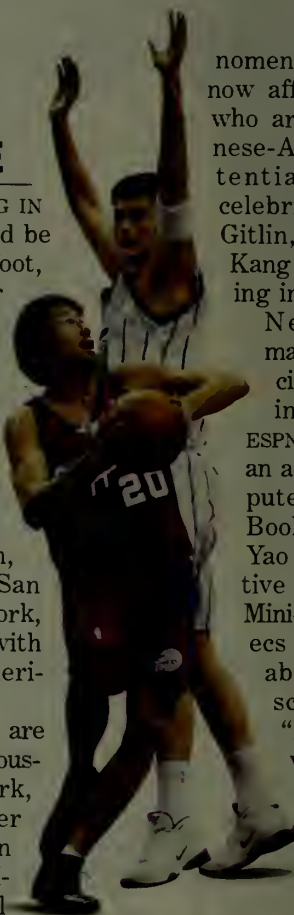
—Congressman Jim McDermott (D-Wash.), charging that the White House is extending unemployment benefits to make it politically easier to cut taxes for the wealthy

SPORTS BIZ

CENTER OF THE UNIVERSE

THE NEXT BIG THING IN advertising? It could be Yao Ming, the 7-foot, 5-inch center for the Houston Rockets. He has become quite a sensation since being recruited from China to the NBA, drawing thousands of Chinese to games in Houston, Los Angeles, San Francisco, New York, and other locales with large Chinese-American communities.

Advertisers sure are taking notice. In Houston and New York, Chinese beermaker Yanjing has been advertising in stadiums and on a local TV station—in Chinese. Yanjing is now the only imported beer sold at the Rockets' home arena Compaq Center. "The phe-



YAO: In your face

nomenon of Yao Ming now affords advertisers who are targeting Chinese-Americans a potentially "five celebrity," says Gitlin, a strategist at Kang & Lee Advertising in New York.

Next up: Adidas is making his commercial debut promoting the NBA ESPN, Yao will star in an ad for Apple Computer's new iPod. Books. It features Yao with the diminutive Verne Troyer Mini-Me fame. Adidas are enthusiastic about Yao's screen persona. "He's really very charming," says Lee C. chairman of advertising giant TB Chiat/Day, who produced the spot. Look

Madison Avenue to keep Yao-fest going. *Kimberly Weisul and Peter Burr*

E-ECONOMY

NO JOY IN TECHVILLE

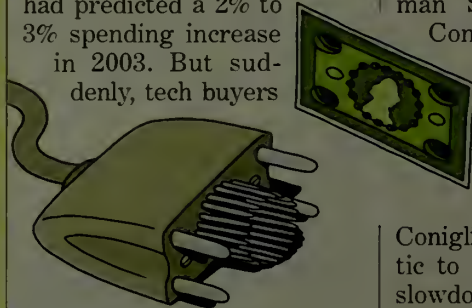
JUST WHEN A TECHNOLOGY upturn seemed at hand, some buyers say they're zipping up their wallets again. On Jan. 2, a Goldman Sachs survey of information technology managers reported a surprising turn for the worse. An October survey by Goldman had predicted a 2% to 3% spending increase in 2003. But suddenly, tech buyers

now expect a 1% decline. The New Year's gloom is especially odd because Commerce Dept. data show robust tech spending gains over the past three quarters. Other surveys and forecasts indicate that replacing equipment and purchasing new products such as wireless networks could mean better days for the struggling tech industry.

Why the disconnect? Goldman Sachs analyst Luca Conigliaro blames a

November and year-end budget cuts. Perhaps the uncertain economy and war fears are to blame, too. S

Conigliaro: "It feels unrealistic to close the book on slowdown." *Rob*





MICHIGAN'S

FIRST BIO-ARTIFICIAL KIDNEY

is the world's first bio-artificial kidney.

Michigan ranks second in the nation in total private spending on research and development.
Moreover, Michigan has one of the most innovative and technologically advanced economies in the nation.
The development of the bio-artificial kidney is just one example.

For more information on innovation in Michigan, visit 1-800-4MICHIGAN or visit www.michigan.org.

www.michigan.org



MICHIGAN | GREAT LAKES. GREAT LOCATION.

Up Front



CONNECTIONS

WHO SAYS IT'S LONELY AT THE TOP?

NOT LONG AGO, THE NOTION of six degrees of separation was all the rage. So the University of Michigan Business School applied the principle to the boards of directors of the top 1,000 U.S. companies. How many degrees separate the business elite? About 4.6, on average.

Try tracing the chairman of a board that *BusinessWeek* ranked among the worst

(Conseco) to the chairman of one of the best (Colgate-Palmolive). Gary Wendt chaired Conseco's board, which included David Harkins, who serves on the board of Fisher Scientific with Michael Dingman, who's on the board of Ford Motor with Robert Rubin, who serves at Citigroup with

Ruben Mark, CEO and chairman of perennially profitable Colgate—which apparently didn't help Wendt much. Wendt resigned in October, shortly before Conseco filed for Chapter 11.

Such links among directors, says study co-author Gerald Davis, continue to proliferate even as boards reform to include fewer insiders. "A small number of random connections makes the whole world small," says Davis. Or rather, run by the connected few. *Robert McNatt*

SLUGFESTS

NOW IN THE FEDS' LAP: SCHOOLS VS. STATES

PRESIDENT BUSH'S EDUCATION-reform effort, the No Child Left Behind Act, did more than establish nationwide standards for public education. It also gave frustrated school administrators a new technique to try to win more funding: the ability to sue their states in federal court. "If schools can't meet standards because they don't have the resources, theoretically they have a claim against



LAWSUITS AHEAD

the state for damages," says Kansas State Senator John Vratil, a Republican.

School boards have sued in state courts with mixed results. But now, federal stan-

dards, plus being able to sue at the federal level, may make it easier to show that kids are being shortchanged—and thus entitle their schools to damages to fund better education. In Ohio, where the state's Supreme Court recently ruled school funding inadequate, estimates of how much more money is needed are as high as \$3 billion for 2003. Similar cases are pending in 20 states.

Lawmakers are bracing for more claims, even as deficits force budgets cuts. Losing in court would mean ponying up for schools—and likely hiking state taxes. *Lorraine Woellert*

DRAWN & QUARTERED



FIGHTING BACK

TAKE THIS AOL CD AND...

YOU KNOW THOSE AMERICA Online CD-ROM offers that clutter up your mailbox? Jim McKenna and John Lieberman collect them. The two El Cerrito (Calif.) residents got so tired of getting the CDs that they started a campaign to accumulate a million of them. Why? To return them to AOL headquarters in Dulles, Va.

So far, they've rounded up almost 130,000, mailed to them by like-minded folk who saw the duo's Web site (www.nomoreaolcds.com) and share their aversion to what they call AOL's "wasteful practice." "We just want

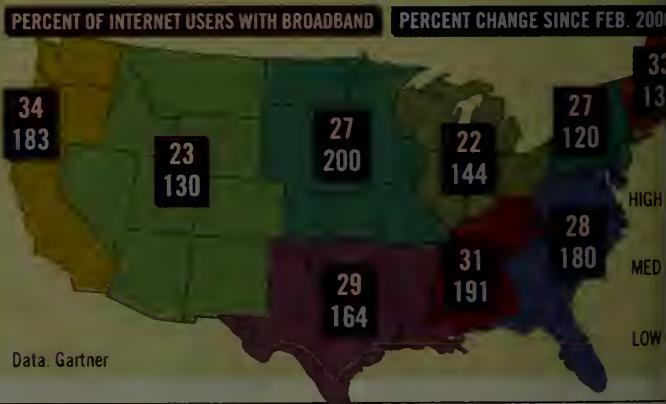
them to market their products another way," says McKenna. The pair have received CDs from every continent except Antarctica. The CDs, which McKenna renders inoperable by scratching, kept in Lieberman's garage. AOL has no plans to stop mailing CDs, says spokesman Nicholas Graham. "every handful of people who call requesting no receive the hundreds request them," says. If the reach the mark, they envision sending 18 tons across the country via an "armada of trucks."

AOL's response? "We'll meet them at the front door," says Graham, who notes that AOL recycles a million CDs a week. "We'll even give them a ride to get here." *Julia Cosgrove*

THE BIG PICTURE

JOINING THE FAST LANE

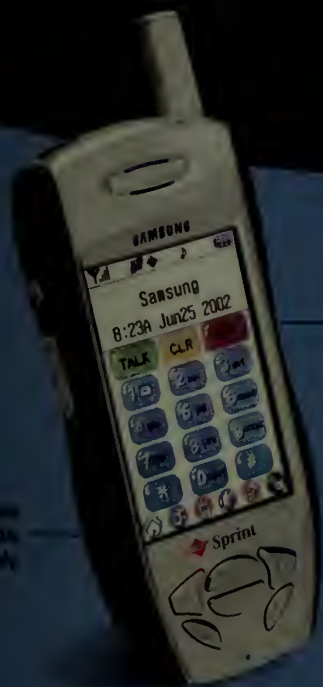
Broadband use has climbed substantially over the past three years, but wide regional disparities still exist.



Polls, surveys, and other items for consideration in this section should be sent to upfront@businessweek.com

SAMSUNG

DigitAllclout



Advanced
Web Browser

Samsung's Palm Powered[®] i330 phone. Now everyone can have a powerful connection.

Know all, see all with this versatile device. It packs 16 MB RAM, a vivid, full-color display and PalmOS[®] functions into one tool that powers productivity. Access your company email, calendar and contacts with PCS Vision[™] from Sprint. Lean and light yet feature-rich, the i330 is advanced technology that advances agendas.

- 16 MB of memory for enhanced storage capacity
- Color screen for clear images and graphics
- Enhanced Internet experience
- Optional camera attachment to capture and store photos

Ready to connect? Visit www.samsungusa.com/wireless or call 1-800-SAMSUNG (726-7864) for information on products and accessories.

SAMSUNG DIGITall
everyone's invited.

DigitAllwhere?

Sprint Store
The PCS Center

carson city

COMPUSA
WHERE AMERICA BUYS

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS:
 Joyce Barnathan, Frank J. Comes, Robert J. Dowling, Kathy Rebello
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Peter Elstrom, Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Armit, Stephen Baker, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehring, Seymour Zucker (Sr. contributing ed.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.); Michael S. Serrill (Sr. ed.); David Rocks, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe), John Koppisch (Int'l. finance)
ASSOCIATE EDITORS: Robin Ajello, Dan Baucke, Diane Brady, Nanette Byrnes, Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gerry Khmerouch, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: Spencer E. Ante. E-Business: Timothy J. Mullaney. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowry. People: Susan Berfield. Personal Finance: Lewis Braham. Carol Marie Cropper, Susan Scherrek, Anne Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports Business)
STAFF EDITORS: Jennifer Merritt, Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Aleta Davies, Doug Royalty (Sr.); Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keating, Robert J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.); Jamie Elsis, Edith Gutierrez, Ron Plyman (Asst.). Graphics: Joan Danaher (Director); Rob Doyle (Deputy dir.); Laurel Dautis-Allen, Joe Kalinski, Alberto Mena, Ray Vella; Eric Hoffmann. Imaging: James Leone (Mgr.), Alan Bonizer (Asst.), Neal Fontana, Nita Le, Rich Michiel, Leo Nieter, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne D'Aprax, Kathleen Moore, Andrew Popper (Assoc.); Sarah Greenberg Morse (Asst.); M. Margarita Eiroa (Traffic mgr.); Burt Hughes, Mindy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.). Karen Butcher, Francisco Cardozo, Thomas R. Dowd, Stephen R. Lebron, Peter K. Niceberg, Jane M. Perkins, Karen Turok, Ilse V. Walton (Edit map mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Y. Steve Ben-Ari, Yo-Lynn Hagood, Steven McCarthy, Anoop Srivastava, Craig Sturgis, Mauro Vaisman
ONLINE: Michael Mercurio (Managing ed.), Arthur Eves (Creative dir.), A. Peter Clem, John A. Dierdorff, John Johnson, Will Andrews, Heather Barry, Jaime Beauchamp, Jane Black, Joleen Colpa, Roger Franklin, Brian Hinds, Olga Khafir, B. Kite, Matt Kopit, James Kutz, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Arney Stone, Joshua Tanzer, Amy Tsao, Kathy Vukusanj
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad. Boston: William C. Symonds (Mgr.), Faith Keenan. Chicago: Joseph Weber (Mgr.), Roger O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Berner, Pallavi Gogoi, Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), David Welch. Los Angeles: Ronald Grover (Mgr.), Larry Armstrong, Christopher Palmeri (Sr. correspondents), Arlene Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. Hof (Mgr.), Linda Himmelstein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O'C, Hamilton, Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.); Rich Miller (Sr. writer); Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. correspondents); Amy Borrus, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Woellert, Catherine Yang, Douglas Harbrecht (Online Sr. news ed.) Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manoj Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Christine Tierney. Hong Kong: Mark L. Clifford (Mgr.), Fredrick Balfour, Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Gen Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.), Carol Matlack. Andy Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Ilhwan. Singapore: Michael Shan (Mgr.). Tokyo: Brian Bremner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kunii
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager: Barbara Boynton. Communications: Heather Carpenter, Christine Fountaine, Andrew Palladino, Susan Sheed. Information Services: Jamie B. Russell (Director), Susan Rutledge (Research mgr.), John Cady (Technology mgr.), Fred Katzenberg, David Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summers

DECONSTRUCTING DENNIS KOZLOWSKI



The rise and fall of Dennis Kozlowski (Cover Story, Dec. 23) was outstanding. He set a new standard for fraud. I take exception to Harvard psychoanalyst Abraham Zeff's description of Kozlowski's problem as "a rampant sense of entitlement." I would call him a greedy crook.

Jim Harpham
Palm Harbor, Fla.

The Kozlowski tale can be summed up in a palindrome: DENNIS SINNED.

George V. Lehto
Silver Spring, Md.

When Kozlowski took over as CEO in 1992, Tyco's market cap was [under \$2 billion]. There are three ways to increase sales: Sell more, raise prices—or make acquisitions, which is the hardest way. Dennis and his team did a great job. Corporate America is littered with ex-CEOs [oust] for one bad acquisition. Dennis and [former Chief Financial Officer] Mark Swartz may have gotten greedy, but what they accomplished was remarkable. I hope they get fair trials.

Eric S. Bleicher
Huntington, N.Y.

DEFENDING SANDY WEILL AND DAN BREWSTER

We must take exception to your decision to include Sandy Weill among the

worst performers in "The best (worst) managers of the year" (Cover Story, Jan. 13). In a year of extraordinary challenge, Sandy stood up to any test of management on any measure. Citigroup management must be judged on the same criteria: leadership through wrenching periods of change, attracting talented managers, and defining and realizing a long-term vision. Sandy has succeeded on every measure.

As the ground shifted in the financial services industry, Citigroup under Sandy adopted several groundbreaking reforms, leading the industry to require needed confidence to the capital markets. He added several talented managers to Citigroup's ranks, including John Masin, Sallie Krawcheck (on your list of new managers to watch), Deb L. Kins, and Nick Calio.

Even as he established Citigroup's model for higher standards, he made sure employees were not distracted from serving customers and delivering value to shareholders. In a year of economic tumult, Citigroup is likely to be the most profitable company in the world, even after a fourth-quarter charge toward the anticipated cost of solving regulatory inquiries and associated litigation, as well as increased credit losses. These results extend a prior, long-term record of performance—under which an investment of \$100 in Citigroup's predecessor company, Commercial Credit in 1986 would be worth more than \$2,500 today.

Above all, Sandy continues to change in the financial services industry. He is the creator of a model that works for customers and for shareholders, which is why Citigroup increased its market share in 2002 and why its common shares have held up far better than many of the company's competitors. Citigroup's efforts to embrace new

PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VP, ADVERTISING BUSINESS & PRODUCTION: Luis F. Carvalho
VP, MARKETING: Patricia Crocker France

VPS, SALES: Mark A. Flinn (Eastern region and BWT), Grant (Midwest reg.), Robert J. Maund (West reg.), Lou Tosto (Eastern reg.), Rik Gates
VP, INTERNATIONAL/NORTH AMERICA SALES: Rik Gates
VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maraviglia
VP, MANAGING DIRECTOR-ASIA: Alan Lammin
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, CONSUMER MARKETING: Joyce Swingle
VP, BUSINESS DEVELOPMENT: Geoffrey D. Broderick
GENERAL MANAGER, BUSINESSWEEK ONLINE: Peggy White

The McGraw-Hill Companies

BusinessWeek
 JANUARY 20, 2003 (ISSN 0007-7135) *** 3816

Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948).
 Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telefax: Domestic 212-512-2001; Int'l. 212-512-2002. U.S. subscription rate: 1 year \$59.97; 2 years \$99.97; 3 years \$119.97. Canadian subscription rate: 1 year \$84.95; 2 years \$129.95; 3 years \$189.95. Mexico Subscription 1 year \$135.00. Brazil (year) \$215.00, all other Latin America countries 1 year \$170.00; 2 years \$325.00. Outside of U.S., Canada and Latin America: U.S. \$199.00 per year. Send no money back issues, \$2.95. Call 1-800-228-9967 or email: busweek@mcgraw-hill.com. Subscriber Services: 1-800-635-1300. TDD: 1-800-554-1579. Postmaster: Send address changes to BusinessWeek, P.O. Box 5223, Boulder, CO 80522-3235. Periodicals postage paid at New York, N.Y., and at additional

mailing offices. Canada Post Publication Mail Agreement Number 9074. Registered for GST as The McGraw-Hill Companies, Inc. GST #R123. Copyright 2003 by The McGraw-Hill Companies, Inc. All rights reserved. registered in U.S. Patent Office. European Circulation Centre, McGraw House, Maidenhead, Berks, England. Telephone: 01628-23431; Telefax: 01628-23432. Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, President, and Chief Executive Officer; Kenneth M. Vitor, Executive Vice President and General Counsel; Robert J. Bahash, Executive Vice President and Chief Financial Officer; Frank D. Pengelase, Senior Vice President, Technology. **PHOTOCOPY PERMISSION:** Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$2.00 per copy of each article. Send payment to CCC. For other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address reprint requests to BusinessWeek Reprints, 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3148. ISSN 0007-7135/03 PRINTED IN THE U.S.A.



THE VIEW FROM YOUR OFFICE
MAY BE SPECTACULAR,
BUT CAN YOU SEE THE FUTURE?

FIDELITY
WORKPLACE
SERVICES

HR/Payroll
Defined Benefit
Defined Contribution
Health and Welfare
Stock Plans

Where will your company be in 3 years? 5 years? 10 years? Whatever the outlook may be, there's only one HR/benefits outsourcing provider ready to serve your company's changing needs. For a solution that's comprehensive, visit fidelity.com/workplace or call Joe Dattilo at 866.733.1033. Because when it comes to your vision, short term fixes just aren't enough.

COMPREHENSIVE HR/BENEFITS OUTSOURCING



Employer Services Company LLC

334749

Readers Report

forms will only strengthen Citigroup's power and ability to deliver.

Leah C. Johnson
Director of Public Affairs
Corporate Affairs
Citigroup Inc.
New York

Let's see—in 2002, Gruner+Jahr USA expanded its ad revenue faster than any other major U.S. magazine publisher, gained advertising market share in every segment in which it competes, and posted the greatest year-over-year profit growth in its history. Also, employee satisfaction was recently measured at an all-time high. [Instead of calling Dan Brewster a Bad Dealmaker,] surely you meant to place him among the "Best" managers. We certainly do.

Bernd Kundrun
President and CEO
Gruner+Jahr
Hamburg

Axel Ganz, President
International Magazine Div.
Paris

HOW TO MAKE THE MOST OF HUMAN CAPITAL

As an economist involved in the research described in "Now it's getting personal" (Working Life, Dec. 16), I want to clarify two points. Focusing on a company's "internal labor market" does not mean customizing pay and employment practices to individual employees, as the article suggests. Rather, it concerns tailoring a company's "people" strategy to its business strategy, instead of merely copying the practices of other companies through benchmarking and "best practice" approaches.

Second, there is nothing in this approach that fosters inequality. The goal is to analyze a company's workforce and performance data to see what these numbers reveal about the company's unique drivers of performance—not to push any particular reward philosophy. In fact, for one of the companies mentioned in the article, we were able to show that greater equality of pay in work groups actually enhanced performance, counter to the conventional wisdom of "paying for performance."

Human capital management gives companies the methods to bring the same discipline to managing their investments in people as they do to other investment decisions.

Haig R. Nalbantian
Mercer Human Resource Consulting
New York

A FEW SUGGESTIONS FOR REVISING THE TAX CODE

A great idea for a tax cut would be to restore the tax deductibility of credit-card and other nonmortgage debt—retroactively to cover taxes now due for 2002 and universal for all taxpayers, whether they itemize or not ("Inching toward tax reform," News: Analysis & Commentary, Dec. 16)? After all, it was consumers who kept this thing from being worse than it is, and they did it with debt. If you give them cash, they will spend that, too.

Ron Tripp
Binghamton, N.Y.

The "double taxation" of dividends is spurious. The corporate-profits tax reduces the amount of money available for dividends, but there is ordinarily little connection between any year's corporate profits and dividends. A corporation frequently pays dividends in a year of no profits or even of loss, and it will pay no dividends in profitable years if management thinks there are better uses for the profits.

Bernard Sobin
Laguna Woods, Calif.

Is it too much to ask to close the loophole that allows companies to skip U.S. taxes by renting a Caribbean mailbox? And how about a true consumption tax—the more resources you consume, the more taxes you pay?

Chris Cauble
Helena, Mont.

HEED THE STORY, NOT THE PICTURE

As a professional ergonomist, I was initially pleased to see "Look, Ma, no neck pain" (BusinessWeek Investor, Dec. 23). The information presented in the article is quite sound, but it is almost entirely ignored by the eye-catching photo of the child sitting at the computer desk.

The article calls for adjustability in children's workstations, but the computer desk pictured seems to allow no adjustment. The seat cannot be raised or lowered. The child's legs are not at right angles to the floor—he has his feet tucked under at odd angles. He needs back support. The keyboard is much too high. This child needs the adjustable keyboard tray mentioned in the article to bring the keyboard and the mouse down to a position closer to his lap. Where the article says that the top of the screen should be at eye level,

the child's horizontal gaze falls to one-third of the distance from the bottom of the screen.

The configuration pictured to make children uncomfortable. We can lead to several kinds of serious injuries that are insidious in that they develop over time. So readers heed the advice in the article and ignore the illustration.

Elizabeth D. Murphy
Fairfax, Va.

Editor's note: We agree that the photograph is incorrectly positioned.

Is it really wise to suggest that children balance their 17-in. and 9-in. computer monitors on phone books? Aren't there risks to person and equipment attendant on perching such large and asymmetrical objects on a disorganized desktop?

Eugene L. Lerner
Nahant, Mass.

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archives from 1991 are available on the World Wide Web at: www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

We prefer to receive letters via e-mail, without attachments. Writers should disclose any connection or relationship to the subject of their comments. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in our electronic and print editions.

E-mail: bwreader@businessweek.com

Fax: (212) 512-6458

Mail: *BusinessWeek* Readers Report, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm> (click "Manage Your Account")

For individual subscriptions, corporate subscriptions, and other inquiries.

Phone: (800) 635-1200 Fax: (641) 842-6101

E-mail: bwcustomerservice@neodata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

E-mail: bw_group@businessweek.com

Latin America

Phone: Int +44 1444 475 649

Fax: Int +44 1444 475 506

E-Mail: Businessweek.subs@qss-uk.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

E-mail: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use; \$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

E-mail: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm



invent

COMPAQ

It's all the computers you need.

Introducing one computer that works like more than one: the Compaq Tablet PC. Connect it to its optional dock and it's a desktop. Attach the included keyboard and it's ready to go as a laptop. Or write right on the screen and you can create editable documents without a keyboard at all. To find out how \$1,699* can get you the computer that adapts to your work environment, call 1-800-888-8129 or visit www.compaq.com/tabletpc/ad.

When it really matters, choose Compaq.

The Compaq Tablet PC.

COMPAQ

Hewlett Packard Company *Estimated
list price. Actual prices may vary. Shipping,
and taxes not included. Docking station
sold separately. Microsoft® and Windows® are
registered trademarks of Microsoft Corp.



Write on it



Type on it.



Dock it.

MEASURING AMERICA

How an Untamed Wilderness Shaped the United States and Fulfilled the Promise of Democracy

By Andro Linklater

Walker • 310pp • \$26

FORTY ACRES AND A RULE

When one of a book's main characters is an obscure surveying tool dating from Elizabethan times known as Gunter's chain, it's natural to wonder: Can this volume be very interesting? As it turns out, Andro Linklater's *Measuring America: How an Untamed Wilderness Shaped the United States and Fulfilled the Promise of Democracy* succeeds brilliantly, viewing the familiar story of westward expansion through an unusual lens.

Interweaving history, biography, and science, Linklater delivers a fast-moving account of how, beginning shortly after the American Revolution, the nascent federal government surveyed and, together with land speculators, sold Western lands. Sadly, the survey provided a

rationale for pushing Native Americans from their territory, even as proceeds from the sale helped pay off debts from the war. But *Measuring America* is much more than a tale of determined trailblazers. It's a story of how, through the act of measurement, the Founding Fathers transformed the very concept of land, making it a readily tradable commodity and setting the stage for America's special brand of populist entrepreneurialism.

At the same time, Linklater, a journalist who lives in Britain, delves deeply into one of the most heated scientific debates of that era,

one that continues to befuddle Americans: How best to measure the physical world? Should the young nation formally adopt traditional English weights and measures? They were, after all, already being employed by farmers and merchants. Or would it be better to turn to the far more logical metric system, which had been invented by Enlightenment scientists in their quest for precise calibration of the earth.

Linklater celebrates the teams of trepid surveyors who set off through mosquito-infested swamps and virgin forests. As they did, the book relies heavily on Gunter's chain. Measuring in feet, it was ideally suited for marking

off an acre—or 10 square chains. At the same time, the chain's 100 links encouraged people to think about measurement in terms of decimals. In this way, Gunter's chain anticipated the metric system, which, in the first years of the 18th century, was gaining an increasing number of adherents, including Thomas Jefferson.

Ever since English settlers landed in the N



AMERICA'S FIRST LAND SURVEY LAID THE GROUNDWORK FOR A NATION OF FARMERS

world, they had been throwing Gunter's chain over their shoulders and setting into the woods to parcel out irregularly shaped farms. Then in 1784, Jefferson proposed a more methodical approach. A new government survey of the freshly acquired Northwest Territory—which we know today as the Midwest—would employ the chain to impose the landscape a perfect grid composed of 360-acre parcels. The survey grew to a massive undertaking that took more than a century to complete and ultimately encompassed billions of acres from the Appalachians to the Pacific.

The years of toil paid off. As the survey inched across the country, a horde of settlers followed, buying from the General Land Office pieces of the grid for as little as \$1 an acre. Parcels were sold in lots as small as 40 acres, fulfilling Jefferson's dream of a nation of republican farmers. Land speculators, though, were a step ahead of the farmers, buying lots from Revolutionary War veterans that let them snatch up millions of acres for pennies on the dollar. The survey facilitated the creation of a new mar-

ket, since uniform pieces of the grid were "ideal for buying, trading, and speculating," writes Linklater. "Speculation, or, as the nineteenth century called it, capitalism, and democracy went together."

In the end, more than 1 billion acres of land were transferred from the U.S. government to private hands. The surveyors' legacy is still visible to air travelers. "The showpiece of their efforts lies in the Great Plains," writes Linklater, "where the checkerboard of squares permeates the landscape, the economy, the very outlook of those that live there."

If the survey was one of Jefferson's crowning achievements, his failure to secure the metric system must have been a bitter disappointment. Jefferson expended considerable political energy on a bid to impose science upon the then-unruly business of measuring not just land but wheat, timber, tobacco, and other commercial stuff of the era.

In a tragicomic development that could have been lifted from a 19th century opéra bouffe, Linklater recounts the implausible tale of how Jefferson and America lost an early opportunity

to promote the metric system. To convince a skeptical nation of the system's virtue, in 1794 the President-to-be invited one of France's leading scientists, Joseph Dombey, to hobnob with American officials. But the scientist's ship, along with Dombey's impressive set of metric weights and measures, was blown off course and landed in the West Indies, which were feeling the after-shocks of the French Revolution. Perceived as a radical, Dombey was arrested by the royalist governor of Guadeloupe. He never reached the U.S.

The book does have shortcomings. Colorful anecdotes appear too infrequently, while much space is given over to metric-system minutiae. Linklater also moves a bit too expeditiously through the shameful process of removing Native Americans from their ancestral lands. Even so, he succeeds at a difficult undertaking. *Measuring America* more than measures up.

BY ERIC SCHINE

Associate Editor Schine lives in Brooklyn on a lot measuring a quarter chain by one-and-a-half chains.

Glenfiddich

The independent spirit.

Distilled by an independent family company.

Bottled as Glenfiddich, which means "valley of the deer." Matured at its own Highland distillery for a full 15 years — our Solera

Reserve features delicious notes of oak, honey, vanilla spice, fruit and sherry.



AGED 15 YEARS

GLENFIDDICH.COM

BY STEPHEN H. WILDSTROM

tech&you@businessweek.com

A PICTURE IS WORTH 1,000 CHARTS



New software “visualizes” data in ways that give a much richer image than typical tools

If you want to know how the markets did today, you could try to make sense of the tickers on CNBC or the charts and tables on any number of Web sites. Or you could look at the Map of the Market on www.smartmoney.com. There you will see blocks of colored rectangles grouped by industry. Each block is a listed stock. Its size indicates the company's market capitalization, and the color indicates price change. Clicking on a company offers more detailed information about the company and its securities.

The map, which conveys lots of data at a glance, is an example of a technique known as information visualization that is making its way into the mainstream after a long gestation in computer science labs. The idea is to replace the rows and columns of numbers or the graphs and charts that have long been used to present data with a much richer visual picture. Visual presentation isn't a substitute for numbers and graphs, but an adjunct to them. “Information visualization answers questions you didn't know you had,” says University of Maryland computer scientist Ben Shneiderman, who developed the underlying technology that smartmoney.com uses. (I urge you to check out the Web sites for demonstrations of the products I describe here—their visual nature proves a picture is worth at least 1,000 words.)

For the most part, visualization tools are cropping up as part of the analytical software packages that are used to mine data at large companies. However, there are stand-alone products that use the technique to help users make visual sense of what otherwise might be an overwhelming sea of data. One approach is called Grokker, downloadable as a \$99 “preview edition” from www.groxis.com. Grokker is a Web search tool that instead of responding to a query with pages and pages of links, shows the result as a series of circles. A big circle represents all the results. Circles within it represent subtopics, with the size of the circle indicating the amount of data it contains and the color coding the relevance of the data. Each inner circle expands as you click on it, revealing additional detail, until you click on the innermost circle, which then opens a Web page.

The Grokker approach works best on vague queries where you don't really know enough to construct a precise search request. For example,

a Google search on “data visualization” produced 110,000 results. Grokker produced 13 major categories, including one, which was what I wanted, that gathered the results dealing with decision support software. As underlying search tools, Grokker uses Northern Light (www.northernlight.com), which offers a lot of results you must pay to see, or the Open Directory Project, a free, cooperative effort organized by Netscape to build a massive catalog of the Web.

Most of the visualization tools are designed to extract information from existing databases. MindManager from Mindjet (www.mindjet.com) lets you jot your musings about a subject and assemble them into a “map” of ideas. The result is something like an outline, with topics and many layers of subtopics as you want. Instead of an outline's linear organization, MindManager (\$199 for the business edition, with a 21-day free trial available) lets you put the information anywhere you want as you build a tree of ideas. Simple tools let you collapse branches to see the big picture or focus on



an expanded branch to drill down into the details. Items can be color-coded or tagged with icons for identification. It is also easy to connect the data in MindManager into more conventional, structured tools. For example, to-do list items emerging from a brainstorming session can be exported either as Microsoft Outlook tasks or checkpoints in a Microsoft project timeline.

For the past 20 years, the vast data-management power of PCs has been used mainly to emulate the paper forms and reports of the past. Data visualization literally changes how we look at information, and it will take some time to get used to. But, as Shneiderman wrote in *Leonardo's Laptop*, a newly published book, “most people depend on visual input for most of their understanding of the world around them.” In a world where our problem is often too much information, these techniques can be a big help.

BusinessWeek online

FOR A COLLECTION OF PAST COLUMNS and online-only reviews of technology products, go to Technology & You at www.businessweek.com/technology/



Frustrated by missed tax-saving opportunities?

Prudential can help manage your tax burden.

If you're like most investors, every year you promise yourself not to pay the IRS a penny more than its fair share. A Prudential professional will work with you and your tax advisor to help you develop tax-smart investment strategies that can help you keep more of your hard-earned dollars. Strategies that are right for you. Strategies that can be adjusted as markets change and your needs change.

Make higher contribution limits to retirement accounts work to your advantage. Smart use of new tax laws can make a big difference to your nest egg. If you haven't heard about IRA "catch-up" provisions for those 50 and over, or kept track of new higher yearly contribution limits to 401(k)s, 403(b)s, and IRAs, you could be missing great opportunities to dramatically boost your retirement savings.

Use improved college savings plans to increase your children's education assets. Section 529 plans continue to provide one of the best tax-advantaged vehicles for long-term college savings. Prudential can help you identify which 529 plan is right for you, and help you capitalize on these and other investment opportunities to secure your children's future.

Treat your estate plan as an ongoing concern. Keep tabs on your plan now, and at least every two years thereafter. Working with Prudential, you'll develop a strategy that ensures your assets are managed according to your wishes today—and in the future. Our financial professionals can help you pass assets to future

generations and minimize estate taxes. Life insurance and trusts can help provide the money your family will need to meet these obligations and protect the value of your estate. We'll also help you keep current with changing tax laws.

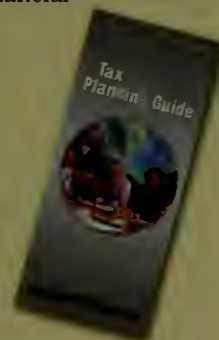
Utilize strategic gifts to your advantage.

Tax-efficient gifting remains the untold story for many affluent investors. Prudential can help you understand the tax benefits and nuances of gifting, and show you ways to help achieve your philanthropic and family wealth goals while maximizing your tax savings.

Get a head start on easing your tax burden.

Call today for Prudential's free *Tax Planning Guide*, and speak with one of our financial professionals about tax mistakes to avoid—and smart moves you can make now to help safeguard your future.

**Call 1-800-THE-ROCK
ext. 9659 prudential.com**



Prudential Financial

Growing and Protecting Your Wealth®

© 11/2002. Prudential is not a legal or tax advisor. Investors should consult their individual tax advisor before making any tax-related investment decisions. Securities products and services are offered through Prudential Securities, a Prudential Financial company and member SIPC. Under a 'sunset provision,' the changes to tax law under The Economic Growth and Tax Relief Reconciliation Act of 2001 are scheduled to expire on December 31, 2010, and do not apply for tax years after this date unless action is taken by Congress. Therefore, it is important to confer with your tax advisor as to the potential impact of the sunset provision on your tax decisions.

BY ROBERT J. BARRO

BUSH'S TAX CUTS: REAGANOMICS REDUX?



SENSIBLE:
An end to
the tax on
dividends,
for instance,
will promote
more
efficient
corporate
financial
policies and
spur
investment

In the 1980s, President Reagan led the effort to improve economic performance through tax reform. Marginal income tax rates were sharply reduced, many tax loopholes were eliminated, and the tax code was simplified. The rewards were twofold. First, the improved incentives to work and invest helped foster the U.S. economy's strong performance after 1982. Second, the tax cuts shifted revenues away from Washington, curbing the growth of government. Federal budget deficits grew in the late 1980s, but there's no evidence they raised interest rates or lowered investment.

The Reagan revolution was eroded by the ill-advised income tax rate increases of the early 1990s by Presidents Bush Sr. and Clinton. The creeping rise of the alternative minimum tax and the piling on of tax credits and adjustments to income complicated the code further. Nevertheless, the income tax environment remained better than that before 1980 and thus contributed to the strong economic performance of the 1990s.

The spirit of Reaganomics has returned in the current Bush Administration's proposals for a new round of tax cutting. Although the momentum for the tax changes may come politically from the desire to spur a weak economy, the proposals are designed to reduce tax distortions, cut marginal income tax rates, and thus achieve higher economic growth in the long run.

Perhaps the most important element in the Bush plan is the elimination of the personal tax on dividends. The general idea is that taxes on profits are already paid at the corporate level, so levies on dividends at the personal level constitute double taxation of these profits. Corporations react to the double taxation in several ways. First, instead of paying dividends, they retain earnings and use accumulated earnings to make stock repurchases. These practices, in essence, convert dividends into capital gains, which are taxed at low effective rates. A downside to this tax-spurred corporate financial strategy is less transparency and weakened stockholder control over management—important concerns these days.

A second corporate response is to finance investment by borrowing rather than issuing new equity. This procedure lowers taxes because the interest payments are tax deductible at the corporate level. But it can inflate the debt-equity ratio, creating financial instability especially in downturns. The elimination of the personal dividend tax would promote a more efficient corporate financial structure, which in turn would encourage higher corporate investment.

Another important part of the tax proposal is the moving up to this year of the marginal income tax rate cuts promised in the 2001 law. For example, the reduction in the top marginal rate from 39.6% to 35% would become fully effective on January 1, 2003. Although the cuts in the 2001 law were attractive, the gradual phase-in through 2006 was a bad idea. The prospect of lower future tax rates gives individuals and businesses incentive to defer income and production. For this reason, the rate reductions can actually retard the economy in the short run. In the 1981 law, a similar phase-in of income tax rate cuts likely contributed to the 1982 recession. We learned in the early 1980s that any legislated tax changes should occur all at once. The new plan recognizes this principle.

The tax proposal also properly accelerates some other features of the 2001 law—including the reduction of the marriage penalty, enhanced tax credit, and a broadened scope for the 10% rate bracket. Left for the future are other desirable reforms, including cutting corporate tax rates, accelerating and making permanent reduction of the estate tax, changing the AMT, and eliminating phase-out rules for benefits such as itemized deductions. But, rather than complain about the omissions, I mostly have to applaud the return to a sensible economic approach for tax policy.

Democrats, no doubt, will stress that most of the direct benefits from the proposed tax changes accrue to richer families. In the current income tax system, this characterization of the cuts is inevitable because so little of individual income taxes are paid by poor families. For example, in 2000, taxpayers in the lower half of adjusted gross incomes paid only 4% of individual income taxes, compared with 56% paid by those in the top 5%. In 1970, taxpayers in the lower half paid 17% of individual income taxes, vs. 31% paid by those in the highest 5% of adjusted gross incomes. Thus, more and more, the individual income tax has been paid primarily by the well-to-do, creating a dangerous political cleavage that promotes class warfare. Democrats, to the extent that they represent poorer families, can argue that the income tax is something paid primarily by other people. Of course, even those who pay little or no income taxes benefit indirectly when tax rate cuts encourage economic growth. Growth is still the best way to raise employment and wages.

The tax-cutting proposal reflects the view that the best short-run economic policy is a good long-run policy. This is very refreshing coming from Washington.

Robert J. Barro is a professor of economics at Harvard University and a senior fellow of the Hoover Institution (rjbweek@harvard.edu).

JAMES C. COOPER & KATHLEEN MADIGAN

WILL OIL WORRIES SEND THE ECONOMY SKIDDING?

Not near-term. But a disaster in Iraq could mean recession

U.S. ECONOMY A year ago the price of oil was less than \$20 per barrel. At the start of 2003, it was more than \$30, a two- or threefold high, fueled by the strike in Venezuela and worries over how possible U.S. military action in Iraq will affect the flow of oil from the Middle East. Just how much should we worry about higher oil prices and their potential impact on the economic recovery?

There's plenty of reason for concern. The last five recessions were all preceded by substantial hikes in oil prices. Indeed, the tripling in the cost of oil during 1999 and 2000, from \$12 per barrel to \$36, may well have received short shrift for its role in provoking the 2001 downturn. Now, just as the economy shows evidence of emerging from its autumn swoon, based on surprisingly strong December readings on manufacturing activity and car sales, the prospect of costlier energy once again looms large in the outlook (charts).



Higher energy costs boost inflation, cut into economic growth, and significantly increase the cost of doing business in a broad range of industries—especially now, when passing along higher costs is virtually impossible for many companies strapped by a lack of pricing power. That means profits take it on the chin. Already-struggling airlines are

especially sensitive to higher fuel costs, but other energy-intensive industries, such as steel, lumber, paper, chemicals, and plastics, are also vulnerable. Still, outside of the worst-case scenarios for the Middle East in coming months, the U.S. should be able to weather \$30 oil or even a temporary spike to a higher level, especially given the stimulus coming from the Bush Administration's new tax package (page 26). Moreover, market fundamentals and long-term trends imply that oil will be cheaper later this year.

ECONOMISTS HAVE A RULE OF THUMB for gauging the macroeconomic impact of higher oil prices: Every \$10 per barrel rise that lasts for a year cuts economic growth by about 0.5% and adds about 1% to inflation. Under that rubric, even if oil averages \$35 in 2003, up from an average of about \$25 in 2002, the recovery should be no worse for wear.

But the real world doesn't always operate the way econometric models, whose projections are based on average historical trends, say it should. In reality, the response to higher oil prices is no clear-cut, straight-line relationship. That is, the impact of going from \$15 oil to \$25 oil appears to be a lot smaller than the jolt that occurs from, say, \$35 to \$45. Models tend to underestimate the adverse effects of oil spikes, and most fail to predict a recession, even at very high price levels.

Oil price spikes going back to the 1970s bear this out. So a sustained move from \$25 to \$45 oil would likely do more harm than just shave one percentage point from economic growth. It could even tip the economy into a recession.

Consumer spending, a factor crucial to the recovery, tends to suffer the brunt of the blow from higher oil prices. Another rule of thumb is that every \$10 hike in oil increases household energy costs by about \$50 billion. Unless consumers save less, which is unlikely now as households try to rebuild their savings amid economic and war uncertainties, that's \$50 billion unavailable for spending on discretionary items, such as another sofa or a snazzy laptop. That drain could subtract up to 0.75% from the growth in real consumer spending over a year's time.

THE IMPACT ON CONSUMER PRICES is already starting to show up. Based on current and expected levels of prices for gasoline and heating oil, energy costs, which make up 6% of the consumer price index, will add about 0.1% to the rise in the December index and up to 0.3% to the January index. That means January inflation will be running at about 3%, up from only 1.1% at the start of last year.

It's important to note, however, that core inflation, which omits energy and food, is actually falling, due mainly to a sharp slowdown in housing costs, which account for more than a third of the core CPI. Costlier energy is being partly offset by cheaper mortgage payments, reflecting multi-decade lows in mortgage rates.

Still, even with no further rise in energy costs from the January level, the growth in first-quarter consumer spending over the fourth quarter would be depressed



Business Outlook

by about 0.5%, at an annual rate. Beyond that, though, the outlook depends on how events in Venezuela and the Middle East will play out.

THE SIX-WEEK-OLD STRIKE IN VENEZUELA, which had been supplying 10% of U.S. crude, has cut the country's output to only 20% of its 3 million barrels-per-day capacity. And analysts doubt that President Hugo Chavez can keep his pledge to restore full capacity by mid-February. Partly because of the strike, U.S. crude inventories are 11% below their year-ago level, according to the American Petroleum Institute.

For now, at least, the price effect of Venezuela's reduced production is mitigated by the desire of other OPEC members to keep the global flow of oil on an even keel. OPEC members have an informal pact to keep prices in the \$22-to-\$28 range, a level that OPEC believes will generate a steady flow of oil revenues without damaging global growth, which would depress receipts. To that end, OPEC has agreed to increase output by 1 to 2 million barrels per day to make up for Venezuela's shortfall, and prices are off their recent highs.

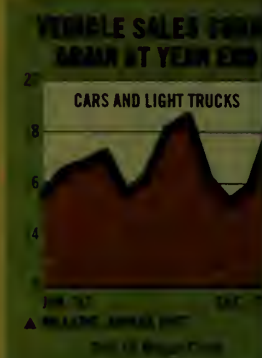
Yet Iraq still casts the biggest shadow on the outlook. Analysts offer only general scenarios. One: An uneasy peace with Saddam Hussein relieves war worries and allows oil prices to head back into OPEC's target range. Two: A quick war ousts Saddam, resulting in a sharp price drop, with obvious economic pluses.

Even this best possible case, however, may not yield full benefits immediately, since huge investments will be needed to fully resurrect Iraq's oil infrastructure.

But it is fear that the war will go badly and the flow of oil will be disrupted that is keeping prices up right now. On this one, who knows? One extreme-case scenario: A nuclear device contaminates key oil fields for years, sending prices over \$100 per barrel.

Barring that, the best bet is that oil-market forces will reassert themselves later this year, allowing prices to fall. First, OPEC has learned the value of stable prices. Second, inflation expectations are low, meaning that a temporary oil spike will fuel a generalized pickup in inflation. And three, higher oil prices have much less impact on the economy than they did in earlier years. Because the U.S. is more energy-efficient, it now derives twice as much gross domestic product from the same amount of energy used in the 1970s.

Nevertheless, oil is still a crucial factor in the economic outlook. So in the coming months, fill 'er up on the best available contract for winter fuel oil and keep your fingers crossed.



GERMANY

NOT MUCH ROOM TO MANEUVER

Germany is on the verge of a recession. But at a time when the government should be cutting taxes and boosting spending, euro zone budget rules are forcing it to do just the opposite. The result: Economic, social, and political forces are on a collision course in 2003 as current woes point the spotlight on Germany's structural flaws.

Based on surprisingly weak December reports on manufacturing activity and retail sales, real gross domestic product may decline in both the fourth and first quarters. Many economists are now looking for growth of less than 1% for all of this year.

Nevertheless, with Germany's

2002 fiscal deficit near 4% of GDP, budget cuts in 2003 will reach nearly 1% of GDP, and further tightening in 2004 may be needed to meet the euro zone's 3% limit. Monetary policy isn't helping.

With inflation at 1%, a percentage point lower than the euro zone average, real interest rates are a full point higher than average. Plus, banks are more restrictive in their lending.

Higher taxes will hurt both households and companies. Rising

social security contributions for state pensions and health insurance, higher taxes for energy and tobacco, and some still-pending levies will hit consumers in January. Companies will have to cover

half the rise in social security contributions, and they'll likely face less generous depreciation allowances and loss provisions.

Business is trying desperately to cut costs and restore profitability, and that means job cuts. Unemployment, already at a four-year high of 4.16 million in November, or 10% of the workforce, will rise further, adding to the stress on policymakers. Heavy wage demands by some unions aren't helping. More than 4 million public-sector workers are threatening to strike.

Germany's missed opportunities at labor market and pension reforms during the strong-growth years of 1998-2000 may come back to haunt policymakers in 2003. Something has to give. The best outcome: The current situation will force additional reforms.



SHARP.

Liquid crystal television **AQUOS™**

be passionate

©2001 Sharp Corporation



Introducing Aquos, inspiring flat-panel, liquid crystal television. Crystal-clear image quality. Outstanding brightness. And a screen that's merely 2.5 inches thin. Aquos by Sharp. It's what TV will be. sharp-usa.com

be sharp™

Cover Story

IS IT CLASS WARFARE?



*That's what the political fight will be about.
But the economic reality is much more promising*

Ever since Abraham Lincoln instituted the first income tax to help pay for the Civil War, the U.S. tax system has been built around two principles of fairness: The rich have always faced higher tax rates than the poor, and no form of income has been immune from taxation. Wages, dividends, interest, capital gains—all have felt the relentless bite of the tax collector.

Until now. On Jan. 7, President George W. Bush proposed fully exempting dividends from the federal personal income tax, a bold step that even the great tax-cutter himself, Ronald Reagan, never tried. This elimination of the tax on dividends—a far more ambitious move than expected—accounted for over half of Bush's proposed \$674 billion economic-stimulus package. Also included in the plan: accelerating income tax cuts scheduled for later in the decade, investment incentives for small businesses, and a modest amount of money for job retraining.

Bush justified his proposals by saying that they would put more people back to work in the short run by pumping tens of billions of fiscal stimulus into the economy in 2003 and 2004.

At the same time, he argued that the elimination of the dividend tax would encourage investment and lay the groundwork for growth and prosperity in the long run. Democrats countered with the undeniable fact

that the biggest beneficiaries of the tax cuts would be the well-to-do. Estimates from the Urban-Brookings Tax Policy Center suggest that 60% of the benefits in 2003 will go

**DO YOU
FAVOR OR OPPOSE
THE BUSH TAX PLAN?**

Cast your vote online.
Go to the Jan. 20 issue at
www.businessweek.com

BusinessWeek online

COVER STORY THE PRESIDENT'S PLAN

to taxpayers with an adjusted gross income of more than \$100,000. That rises to nearly 70% in 2010.

Such an appeal to fairness has often proved powerful in the past. But the political and economic landscape has changed, and in the New Economy, the old rhetoric of class warfare—rich vs. poor, investor vs. worker—may be increasingly obsolete. Dividends, interest, and other capital income are more evenly distributed than they once were. Moreover, America can prosper only if investors are willing to take a chance on innovative new businesses and technologies—and one way to encourage them to do that is to cut the taxes they pay.

Indeed, the 1990s showed that a fast-growth, high-productivity economy can benefit poor and average Americans even as it generates increasing income inequality. During the boom years and the bust that followed, the share of income going to the top 5% of households crept up from 21% in 1993 to 22.4% in 2001. But over the same stretch, the poverty rate slid from 15% to less than 12%, despite the 2001 recession. Just as important, real wages rose significantly for the average American.

Certainly, reducing income inequality is in itself a laudable economic goal. But it's not the only one. If the benefits of widespread and growing prosperity

THE RICH *The hope is that they will be encouraged to invest in new ventures that will create jobs*

outweigh the negatives of growing inequality, then the Bush plan must be judged in that context. If eliminating the tax on dividends and implementing the other parts of the Bush proposal can stimulate growth and create jobs, that will help hold down poverty and boost wages. In the end, the price of improving performance at the bottom end of the economy may well be outsize gains at the top, but that may be a price worth paying.

The danger, of course, is that the Bush plan doesn't work to boost investment and growth. In the worst-case scenario, the extra money available to high-income taxpayers could be invested abroad or spent on imports—neither of which does anything for the U.S. economy. The result, then, would be higher budget deficits with little or nothing to show for them.

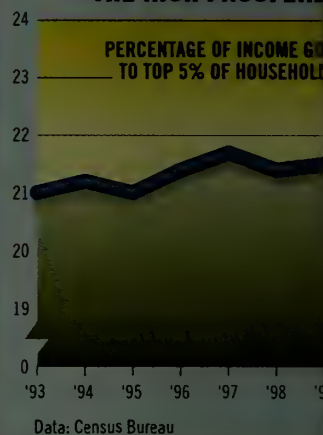
Moreover, whatever the economic merits, it's not clear that the Bush Administration has the votes in Congress to pass such a far-reaching and expensive plan. There will be plenty of changes to the scale and details of the President's proposals—not to mention attempts to rejigger it more toward short-term stimulus. Already, the Democrats have made it clear that they would like to provide more direct funds to state and local governments for such things as spending on Medicaid, homeland security, and infrastructure projects.

No matter what legislation finally passes, simply by posing to eliminate taxes on dividends, Bush has transformed the economic debate in a way that goes far beyond the nitide of the proposals themselves. Economists of all stripes have long agreed that reducing taxes on capital income—of which dividends are one kind—is a good thing. In fact, from the economic perspective, such a reduction in capital taxes makes far more sense than simply cutting the marginal tax rate on high-income households, as Reagan did. Lower taxes on capital makes it more profitable to invest, while higher rates of investment boost long-term growth.



WILL THE BUSH PLAN

IN THE 1990s, THE RICH PROSPERED



and productivity. "I don't know of anything else we can do that has a similar prospect for improving incomes," says Robert Hall, a Stanford economist who also heads the business cycle dating committee at the National Bureau of Economic Research.

Despite the consensus within the economics profession on the difficulty in reducing taxes on capital income, such as dividends and interest, always has been political. Capital income has historically been concentrated among the wealthy taxpayers, who had big holdings of stocks and bonds. So reducing the taxes on capital income would mainly have helped the richest people—effectively making such a move a political nonstarter. "Intelligent supply-side economics often propose regressive changes in the tax structure that if enacted would be good for growth," says Alan Blinder, a Princeton University economist and former vice-chairman of the Federal Reserve. "This is probably one of those."

But almost without notice, the concentration of capital income has been steadily decreasing. More and more, the tax brackets are not mainly populated by wealthy investors who collect dividends and interest payments. Instead, the biggest incomes go to high-end managers and professionals who get most of their money from salaries and other compensation.

A BOLD NEW PROGRAM

How Bush hopes to boost the economy

Data: U.S. Treasury Dept. Lab. Des.

ELIMINATE TAXES ON CORPORATE DIVIDENDS

► The centerpiece of the Bush plan is intended to boost savings and investment and provide a 10% stock market lift. Since there's little short-term stimulus, most benefits go to the wealthy. **PRICE TAG** \$364 billion in lost tax revenue over 10 years.

ACCELERATE INCOME TAX CUTS

► Bush wants to move up to 2004 the tax cuts for middle-income and wealthy individuals scheduled for '04 and '06, pour about \$29 billion into the economy. That could help provide some economic stimulus to sputtering consumption. **PRICE TAG** \$64 billion over 10 years.

isation, such as stock options and bonuses, along with ac-
business owners who draw funds from their own enter-
ses. As recently as 1981, the top 0.5% of taxpayers got 35%
their taxable income (excluding capital gains) from divi-
dends, interest payments, and rental income. But by the late
90s, the same top 0.5% of taxpayers got only 16% of their
ome from such sources, according to a study by Emmanuel
z of University of California at Berkeley and French-
ed economist Thomas Piketty. That means a reduction in
ital taxes no longer disproportionately benefits the top as
ch as it once did.

AIN THE RISING TIDE?

...BUT POVERTY
PLUNGED AS WELL



Moreover, the nature of the economy has changed over the
st two decades, making reducing taxes on capital more ap-
aling. The rise of a global economy, with increased mobility
capital between countries, means that it may backfire if an
dividual country—even one as large as the U.S.—tries to tax
investors too heavily. “The U.S. is pretty unique in taxing
dividends the way we do,” says James R. Hines Jr., a tax econ-
omist at the University of Michigan. “Almost no other high-in-
me countries have double taxation of dividends.”
Perhaps most important, the U.S. has increasingly become
economy dependent on high rates of capital spending and
novation to compete globally. Even though Silicon Valley’s
age has been tarnished by the tech downturn and dot-com
xplosion, the best way to encourage risk-taking is still to re-
ard successful companies, entrepreneurs, investors, and
orkers with big gains. That means that in a high-innovation
onomy, lowering taxes on capital should always be a top pri-
ity, because it encourages investment and rewards success.
What about the impact of the Bush plan on workers, par-
ticularly those at the lower end of the income scale? The les-
on from the 1990s is clear: Low unemployment, combined
ith rapid productivity growth, is the best tonic for poverty
nd low wages. As overall unemployment dropped below

5.5% or so in the mid-1990s, real hourly earnings for pro-
duction and nonsupervisory workers, which had been falling
since the early 1980s, finally turned up. At the same time, the
tight labor markets forced businesses to hire and train work-
ers who had previously had a tough time getting jobs. That’s
why, in part, the unemployment rate for black workers final-
ly dropped below 10% in the late 1990s.

All of this explains why the Bush package is good news for
workers, irrespective of what happens to those at the top. In
the short term, Goldman Sachs estimates the tax cuts—in-
cluding bigger tax credits for families with children—would
put at least \$50 billion to \$75 billion into the economy
in 2003. Perhaps as much as \$150 billion would arrive
in 2004. Fiscal stimulus of that level should take at
least half a percentage point off the unemployment
rate, and perhaps more.

What about in the long run? Historically there’s been
plenty of disagreement among economists about the
best way to bring down unemployment, especially at the
low end. One view has been that over the long run, the
sustainable unemployment rate is basically determined
by demographic factors, such as education and experi-
ence. While the Bush plan does include a proposal fo-
cused on improving employability—the Personal Re-



THE POOR *Low unemployment,
plus rapid productivity growth,
is the best tonic for poverty and low wages*

employment Accounts, which give unemployed Americans a
credit to be used for training and other expenses—the amount
of money involved is less than \$4 billion and wouldn’t have
much of an effect.

But a recent paper by economists Laurence Ball of Johns
Hopkins University and N. Gregory Mankiw of Harvard
suggests that higher productivity growth was the key to
lower unemployment in the 1990s. If that’s true, a policy
that encourages investment and productivity should bring
growth in jobs and wages that will benefit the poor as well.

What are the downsides? While the numbers in Bush’s
plan sound impressive—\$674 billion over 10 years—they are
relatively small compared with the size of the U.S. economy.
They represent considerably less than 1% of GDP over the next
decade, based on reasonable estimates for growth. And the es-
timates from Bush’s Council of Economic Advisers acknowl-
edge that eliminating the tax on dividends will only boost the
nation’s stock of plant and equipment by less than 1%. By
comparison, during the investment boom of the second half of
the 1990s, the nonresidential capital stock grew at almost
4% per year. “The world is made a little better by tax reform,
but it is not transformed” says economist Hall of Stanford.

The other big problem could be the rise in the budget

UP TAX FOR ES

► Reducing the mar-
riage penalty and in-
creasing the child
tax credit by \$400

provide a \$35 billion boost to
nomy. The break would go
to lower-income taxpayers who
st likely to spend it.
PRICE TAG \$149 billion over 10 years.

PROVIDE EXTRA HELP FOR THE UNEMPLOYED

► The Administra-
tion hopes to extend
unemployment
benefits and provide

\$3,000 each to some unemployed
workers. Those eligible could use
some of the money for job training
while pocketing the rest.
PRICE TAG \$3.6 billion over two years.

BOOST CAPITAL INVESTMENT

► An increase in
equipment write-
offs, to \$75,000

from \$25,000, would encourage small
companies to spend more on comput-
ers and other equipment. Big business
complains that it isn’t getting similar
investment incentives.
PRICE TAG \$16 billion over 10 years.

deficit as taxes are cut. The Bush Administration is assuming that faster growth can provide enough extra tax revenue to keep the deficit from exploding out of control. But many economists are skeptical. "What I'm most worried about is the attitude that we can keep giving away revenue as if there were no long-run budget constraint," says Blinder. "When you look out to the long run, we're desperately in need of revenue."

That suggests it would be a good idea to combine the reduction of tax rates with a broad attack on corporate tax shelters and loopholes. If dividends are not going to be taxed at the individual level, it should be more difficult for

corporations to evade taxes on their profits by tricks such as moving their official headquarters overseas. The Bush goes part of the way in that direction, but more needs to be done to convince citizens that corporations are paying their fair share.

President Bush has offered his opening bid in a long legislative process. But at a time when the U.S. is trying to recapture some of that New Economy magic, it's a good place to start.

By Michael J. Mandel in New York, with Rich Mark in Washington

AND NOW FOR SOME FINE PRINT

As outlined by the Administration's pitchmen, President Bush's new plan to eliminate the taxes investors pay on stock dividends looks like simplicity itself. But buried deep in the fine print are two startling conditions.

One could strike a blow against corporate tax shelters by forcing companies to choose between slashing their own tax bills and ensuring dividend relief for their investors. The second may ease pressure on tech companies to make such payouts—a step many would prefer to avoid. How? By offering their investors generous new capital-gains tax relief, even if they retain earnings rather than pay dividends.

Here's how the first rule would work. Say a company didn't pay corporate income taxes last year, thanks to credits, shelters, and the like. The eligibility of the company's shareholders for dividend-tax relief would be limited. That, theoretically, should push CFOs to trim their reliance on tax breaks. In other words, the Administration is aiming for behavior modification via the tax code.

If enacted, the change will sharply



reduce the value of all corporate tax benefits, ranging from envelope-pushing shelters to mainstream breaks such as the credit for research and development. Only earnings that are

sheltered through the foreign tax credit would be immune from the curbs, according to Administration officials. "This is a big deal," says one congressional tax expert. "You are dramatically changing the economics of these tax preferences."

That would profoundly undermine the recent spurt in corporate tax avoidance. According to one estimate, among large companies, book earnings in 1998 exceeded taxable income by a staggering \$287 billion—one good reason the idea is sure to generate an explosion of business opposition.

The second provision may provide relief to companies on whatever portion of earn-

"THIS IS A BIG DEAL":
Some corporate tax breaks will bite the dust

ings they retain, rather than pay out in dividends. In effect, the White House plan would give investors a capital gains break based on the level of a company's retained earnings. The result: a lower tax bill when investors sell their tech shares.

The proposals should give pause to investors who bought stocks as dividend plays in the euphoria over the Bush plan. And companies, for their part, may find that living with the new dividend tax break would be far more complicated than they ever imagined.

By Howard Gleckman in Washington

BEHAVIOR MODIFICATION *New rules would mean no dividend-tax relief for shareholders in companies hooked on tax shelters*

REFORMER WHO TRIED, TRIED AGAIN

Glenn Hubbard set his sights on dividends in '92

In December, 1992—just weeks before the first Bush Administration turned the reins of government over to the newly elected Bill Clinton—Treasury Dept. unveiled an audacious plan for restructuring the tax code: Exempt individuals from tax on corporate dividends. One of the proposal's principal authors was a 33-year-old economist named R. Glenn Hubbard. In January, 2003, President George W. Bush stunned the nation by making Hubbard's plan the centerpiece of his "jobs and growth" program. The vision makes Hubbard, who has toiled in relative obscurity as head of Bush's Council of Economic Advisers, a key player in the policy firmament. And it explains why he was spared when Bush dumped other members of his economic team in December.

Almost unknown beyond the Beltway and academia, Hubbard is a low-key official with a high-octane dream: He wants to make tax reform a crucial part of the Bush agenda. Hubbard favors shifting the income tax system so that it would do more to encourage savings and investment rather than consumption. Given his imprimatur on the new Bush plan, he may get

his wish. According to National Association of Manufacturers President Jerry J. Jasinowski, "He has been an unusually influential CEA chairman."

A professor on leave from Columbia University, Hubbard is considered among the top tax economists of his generation. "He's one of the very best," says Brookings Institution economist William G. Gale, who disagrees with Hubbard on many policy matters.

Both critics and supporters say the secret to Hubbard's success is his ability to bring minutely detailed analysis to internal policy debates. Although he frequently clashed with both former Treasury Secretary Paul H. O'Neill and former top White House economic adviser Lawrence B. Lindsey, he won over the President with his careful number-crunching and a broad economic vision. He also has a crucial backer in Deputy Chief of Staff Joshua Bolten, who is well-regarded by Bush and White House political guru Karl Rove.

In internal tax debates, Hubbard argued that Bush needed a bolder vision than just short-term stimulus. Rather, he wanted to aim tax cuts toward long-term growth and eventual reform of the overall tax code. And one

key to reform was ending double taxation of corporate profits paid in dividends. His argument: By taxing income such as dividends twice, the code discourages investment and needlessly boosts consumption. Ultimately, his goal is to eliminate tax considerations from economic decisions. That's one reason he fought

against focusing the Bush plan only toward stimulating today's economy. "You want policy changes that will affect the economic recovery and long-term growth," Hubbard says. "I don't see this as fine-tuning at all."

Most mainstream economists agree with Hubbard that dividend taxes should be cut, although many would couple such a reduction with a broad drive to close corporate tax loopholes. Hubbard has generated more controversy for his views on the deficit, however. He argues that pro-growth tax cuts are the best way to balance the budget over the long run, even if that means short-term increases in red ink. And he staunchly insists that there is no direct link between rising deficits and higher interest rates, as many believe.

But critics question whether Hubbard is just providing intellectual cover for Bush's desire to slash taxes. And they worry that it will hurt his credibility as an economist. "Glenn has to get out of Washington," says University of California at Berkeley economist

J. Bradford DeLong, "Even if you're political, you still have to say what you believe."

Despite his ability to sell Bush on the dividend tax cut, Hubbard's future in the Administration is cloudy. While he insists that his CEA post is "great fun," friends say he has grown tired of the job. Sources say he is interested in the No.2 slot at Treasury, but there has been no indication that such a switch is in the offing. Still, few around Washington expect Bush to let Hubbard ride into the sunset just as the shootout over taxes gets going.

*By Howard Gleckman
in Washington*

The economist's overriding goal: Promote savings and investment

THE WORLD ACCORDING TO GLENN

The core views underlying Hubbard's take on the economy and policy

REFORM THE TAX CODE It slows economic growth by misallocating capital

BOOST INVESTMENT Tax reforms should encourage savings and investment over consumption

IGNORE TODAY'S DEFICIT Long-term structural deficits are a problem, Hubbard concedes, but rising red ink won't necessarily mean higher interest rates

THE CRITICS: A FIGHT ALREADY LOST?

The Bush team is betting that any attacks on the investor class will alienate swing voters

When George W. Bush unveiled his "jobs and growth" plan on Jan. 7 in Chicago, he stunned his political opposition, Washington's cognoscenti, and many business execs in attendance—some of whom had to pinch themselves to make sure they weren't dreaming. The President, who only days ago was said to be struggling with a \$300 billion proposal, unveiled a deficit-be-damned \$674 billion, 10-year megapalooza of a plan. The aim: boosting the economy in the short term via accelerated cuts in marginal tax rates, and laying the groundwork for more robust growth over the long haul by eliminating individual taxes on dividends.

Although conservatives rejoice at the audacity of the proposal, not everyone is cheering. Democrats blast Bush's plan as a giveaway to the rich. "An irresponsible, ineffective, ideologically driven wish list," thundered Connecticut's Democratic Senator Joseph I. Lieberman. Big Business, while publicly supportive of the program, is privately concerned that there is little in it for corporations. Even within Bush's own party, there is fear among deficit hawks that the price tag is ruinous. "The people who have kept our economy going are middle-income Americans," asserts Senator John McCain (R-Ariz.), "not the investor class." He wants to scale back the dividend exclusion in favor of a more worker-friendly plan to trim payroll taxes.

With much of the package aimed at restoring investor confidence, conventional wisdom holds that Bush is taking a huge risk by pinning his hopes on this proposal. So why are his advisers so confident that the Democrats' fairness assault will fail? Political guru Karl Rove, who watched the Dems' populist attack over corporate wrongdoing fizzle in the midterm elections, is convinced that class-based appeals will not hurt a President who, unlike his father,

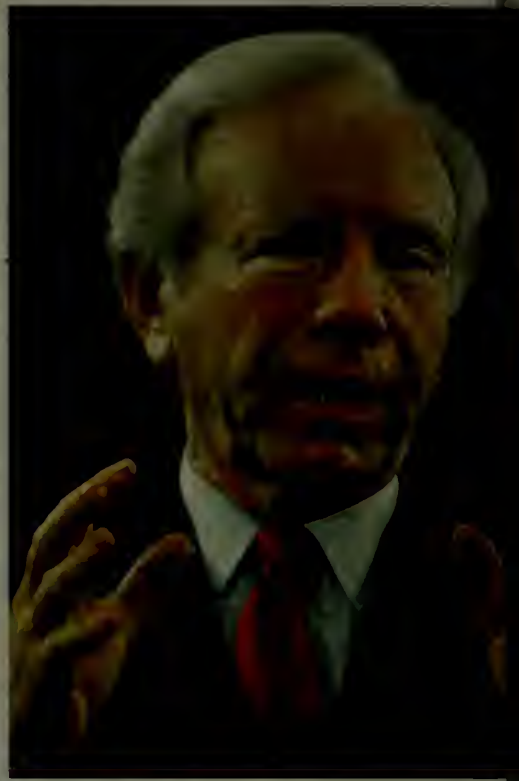
has labored to avoid association with the country club elite. Moreover, with so many Dems seeking the Presidency, the opposition could have even more trouble than usual coalescing around an alternative.

But most important to the Bush high command and those close to the Administration is the conviction that Democrats are misreading the aspirations of the burgeoning investor class by railing against a plan so clearly aimed at investor interests. Some "70% of voters own stock," says Grover

G. Norquist, president of the pro-tax-cut Americans for Tax Reform. "Bush recognizes that the investor class is the most important demographic group in the country." In the GOP view, it's Democrats who are running a risk in the

Great Tax Debate by portraying investors as brandy-sipping, high-caste swells. That can alienate both suburban swing voters, who are sensitive to stock market lurches, and more passive investors, whose holdings are mainly in 401(k) plans—and, bust or no, still harbor hopes of striking it rich.

Some survey research supports the view that Bush has acquired Teflon in the old battle over income distribution. In pre-midterm polling by the Pew Research Center, investors favored GOP candidates by 48% to 43%. Today, a key factor driving Bush's 64% approval rating is a surge



**“An irresponsible,
ineffective,
ideologically driven
wish list”**

— SENATOR JOSEPH I. LIEBERMAN

of support from urban swing voters—the vast majority of whom in the market.

White House identified a new wing bloc that led by Republican,"

pollster John Z...

to the wealthiest, "Democrats are talking to folks they have already got instead of appealing to the middle."

According to William F. Connelly, a political scientist at Washington & University, many Americans see themselves as part of a vast pluralistic society of society that refuses to be polarized along class lines. "The Democrats' class warfare pitch fails because most of us see ourselves as middle class," Connelly adds. "And the middle class is part of the investor class, along with the rich."

Democrats think it's disingenuous to label as "class warfare" the notion

LET THE BRAWLING BEGIN

Bush will get most of what he wants from the GOP-controlled Congress, but his economic program will change under pressure from business lobbyists, governors, and opposition Democrats

STICKER SHEET

► Normally, lawmakers have to pass a tax plan. But this time, the bill varies growing over the years. Bush's 10-year, \$600-billion package could be slimmed down. Derivatives favor \$136 billion—in one-time spending.



gives small-business-investment tax breaks, and sends emergency aid to states. Top Senate Finance Committee Democrat Max S. Baucus of Montana, meantime, wants to funnel \$75 billion to help states with budget crises, and he couples that with middle-class breaks. But with the GOP controlling Congress, the Dems aren't optimistic about their chances. "The cards are stacked against us," laments Senator Barbara Boxer (D-Calif.).

None of which is to say the President's package will sail through unchanged. For starters, Bush will have to cut a deal with GOP lawmakers and governors, who see calamity in state finances unless Congress provides a bailout for soaring Medicaid budgets.

The most powerful force for change will likely be Big Business. Once again, it has seen a Bush tax plan launched with no direct benefit for corporations.

“The people who have kept our economy going are middle-income, not the investor class”

—SENATOR JOHN MCCAIN

Few execs dare to criticize the new proposal publicly; most praise it as a needed confidence-builder for an economy in the dumps. "We're interested in anything [Bush] can do to stimulate consumer and capital spending," says Wilbur L. Ross Jr., CEO of WL Ross &

Co., a New York investment firm. "This is going to pump a lot of money into corporate treasuries and peoples' [pocketbooks]." Adds Raj L. Gupta, CEO of chemical giant Rohm & Haas Co.: Bush is "proposing long-term fixes, not expedient fixes."

But while CEOs shower praise on the Bush initiative, their lobbying armies are quietly mobilizing. Particularly energized are reps for tech companies, real estate, and pension-fund management outfits. All have a common goal:

cutting back on the total elimination of the dividend tax and redirecting tax benefits toward their industries. "We're going to make sure our issues get addressed," vows one tech lobbyist. "This will be changed by Congress."

In a surprise to many CEOs, the President declined to give new investment write-offs to big companies. Lobbyists for makers of capital goods argue that a broader incentive is needed to jumpstart the tech and manufacturing sectors. Employee retirement-fund managers also fret about killing the dividend tax. The fear: Investors in retirement accounts who won't see the tax benefits for years might shift more money into taxable accounts. That's because dividends would be tax-free, and capital gains are taxed at a very low 20% rate.

Other skeptics include interest-rate-sensitive companies as well as state and local government officials who rely on tax-exempt bonds to finance projects. Because the dividend exclusion makes equities more attractive relative to debt, their financing costs will rise.

The bottom line is that a Bush plan that's rubber-stamped by the House will change in the more moderate Senate. "The winning formula might be the President's proposal," cautions incoming Senate Finance Committee Chairman Charles E. Grassley (R-Iowa). "Or it might be parts of proposals from some of my colleagues."

Still, a popular President whose party controls Congress will ultimately get most of what he wants, despite Big Business lobbying and liberals' class-based broadsides. But if Bush's gamble on growth doesn't pay off, the price could be high. Propelled by new tax cuts and a war with Iraq, the 2004 deficit could be \$400 billion, or 4% of gross domestic product. That's a level not seen for a decade. Nowadays, Bush's horizons don't stretch quite that far—only to Nov. 2, 2004, and his rendezvous with the American voter.

By Lee Walczak, Howard Gleckman, and Rich Miller in Washington, Richard S. Dunham with the President in Chicago, and bureau reports

TO DIVIDEND TAXES?

Business is split on plan to end individual taxes on dividends. Others may try to limit—to, say, 50% of total income—to free up for other investment incentives.

BUSINESS BREAKS

► Bush has proposed tax breaks on new-equipment purchases for small business only. Capital-equipment makers, especially in the hard-hit tech sector, will fight to expand those incentives to all companies.

ACCELERATED RATE CUTS

► The White House wants to move the marginal income tax rate cuts in the 2001 tax plan up to 2003. Democrats, citing concerns about the cost and perks for the rich, hope to delay some top-bracket trims until 2006.

AID TO STATES

► The Administration backed off from an idea to funnel emergency aid to the states, many of which face severe budget shortfalls. Congress is likely to add new funding for homeland security and, perhaps, for health care.



AUTOMATICAI

Virgin.com uses Microsoft's services to help it run its agile business. Connecting customers, partners, and the company through Virgin.com, the site is the central hub for everything from information to online services. From streaming audio to e-commerce, PCs, Virgin Mobile and the company's services are all available from a single point of access. This is the future of business.

CONNECT TRACK 12

AND ROW 12.



.NET connected software from Microsoft® lets your entire company anticipate and react to customer desire. How do you use the information your customers give you to offer the products they want? .NET connected software from Microsoft seamlessly ties together all your different systems, databases and platforms. So you can get a 360 degree view of your customers and better tailor everything you have to offer. To see how other companies are better connecting with customers, go to microsoft.com/customerknowledge

Software for the Agile Business.

Microsoft®

COMMENTARY

By Dean Foust

SO MUCH CASH, SO FEW DIVIDENDS



More than any other sector of Corporate America, many tech companies in Silicon Valley and elsewhere have historically shown little but scorn for the idea of paying dividends to shareholders. Given the boundless growth in technology—and the limited cash many startups have—most argue they are better off pouring their cash into research and development or other investments while also retaining a cushion for the sector's notoriously sharp downturns.

Yet what has been true for many of tech's fast-growing small companies may no longer apply to the giants. Indeed, take a look at the biggest tech companies, most of which trade on the growth-oriented NASDAQ: They tend to generate far more cash than they can use. Seven of the largest, including Microsoft Corp. and Cisco Systems Inc., are sitting on \$100 billion in cash and liquid investments, yet most pay no dividends.

But if the Administration succeeds with its proposal to repeal the tax on dividends and on some retained earnings, many tech outfits will have to think seriously about paying out more to lure back burned investors. "I think investors will push for reduction of the excess cash balances in tech companies," acknowledges Alfred J. Castino, chief financial officer at Autodesk Inc., a San Rafael (Calif.) maker of engineering software that has been paying dividends since 1989.

Already, a few cash-rich companies are opening the door. On Jan. 7, Chief



ORACLE
CFO HENLEY

Financial Officer Jeffrey O. Henley of Oracle Corp. told analysts that enactment of the new proposals would make it "quite likely we will have to reconsider our policy." But privately, many execs fret that competitive pressures to pay dividends could

siphon money that would otherwise go into capital spending. And they believe reinvesting in their core business is the best use of spare cash. "We think there are more attractive growth opportunities for us," says Daniel J. Warmanhoven, CEO of Network Appliance Inc. in Sunnyvale, Calif.

But the prospect of making sound investments isn't the only reason tech CFOs like those big stockpiles of cash. Many companies use spare money for stock buybacks, which, by reducing

on to a big cash hoard could become harder to justify. The heady 12%-growth rates enjoyed by the sector in the late 1990s are likely to slow to a more modest 7% to 10%. And while there will always be a new generation of startups that will be better reinvesting profits, established companies such as Microsoft, Cisco, and Oracle have little reason for not paying dividends.

Increasingly, investors are making it clear they want those dividends. UBS Warburg analyst Nikos

Theodosopoulos notes that when Citicorp informally polled more than 500 institutional investors at a conference in November, the majority said they would like a dividend if laws change.

Replacing the buyback culture with one favoring dividends could also inject some much-needed discipline into companies such as Microsoft and Intel Corp., which have frittered away billions in excess profits on poor investments such as Microsoft's \$5 billion stake in AT&T. "Their returns are actually being dragged down by how much cash they have, because it's causing them to make poor investments," argues Robert Schwartz, an analyst at Thomas Weisel Partners LLC.

For all their dividend foot-dragging, many tech magnates would make out nicely, since they tend to own more of their company's stock than Old Econo-

CEOs. For every penny per share that Oracle paid in quarterly dividends, for instance, CEO Lawrence J. Ellison would generate \$56 million annually in tax-free income. Figures like that may help convince tech leaders the time has come to start paying out dividends.

With Robert L. Hof and Peter Burrows in San Mateo, Calif.

MOUNTAINS OF GREEN

Top tech companies share little of their hoards with shareholders:

	ANNUAL PER-SHARE DIVIDEND	YIELD	CASH IN BILLIONS*
MICROSOFT	none	0%	\$40.5
CISCO SYSTEMS	none	0	21.2
HEWLETT-PACKARD	\$0.32	6	11.4
INTEL	\$0.08	0.5	11.2
DELL COMPUTER	none	0	9.1
ORACLE	none	0	5.5
IBM	\$0.60	7	5.2

* Cash and short-term investments, as of latest SEC quarterly filing

HOW TO PLAY THE DIVIDEND CUT

*You may want to rethink
the securities you hold*

If they're going to wipe out the tax on dividends, you load up on stocks with fat payouts, right? Not necessarily. Figuring out how to make President Bush's tax-cut initiative work, you will take more thought than

at. The plan may focus on dividends, but it could affect your entire financial profile—from asset allocation to which accounts hold what securities.

So what should you do now? Probably nothing, unless the plan gets ironed out in Congress. A lot can change before a tax cut passes, even in a Republican-controlled legislature. Moreover, taxes should be the last one consideration when investing—not the main focus.

Asset allocation is always the primary concern. How much should be in stocks, bonds, cash, and other investments, given your financial position, age, and appetite for risk? On that count, the initiative doesn't call for big changes. Even so, you may need to tinker with the types of stocks and bonds you buy. Rapping the dividend tax benefits stocks of large, mature corporations that pay out more dividends than small companies, which need to retain cash to grow. Gregory R. Friedman, chief investment officer of Greycourt & Co., an investment consulting firm in Pittsburgh, reckons that with no tax on dividends, large caps' returns will be nearly equal that of small caps'. Given the added risk of smaller com-

panies, their appeal will be diminished.

At the outset, eliminating the tax on dividends will make it attractive to own value stocks in low-growth businesses such as electric, gas, and telephone utilities. You'll also have to look not just at companies that pay good dividends but at those with the cash flow to start paying them. "Growth companies will make payouts if investors demand it," says Donald J. Peters, portfolio manager of the T. Rowe Price Tax-Efficient Balanced Fund. Part of Bush's proposal would allow shareholders to deduct some money from their capital-gains taxes for earnings that aren't paid out as dividends. The savings won't be as great, but enough to make it worth holding on to a rapidly growing company.

In the bond arena, municipal bonds will suffer the most. "If you have another

asset class offering tax-free income, munis won't have as much of an advantage," says Daniel C. Dektar, chief investment officer at Smith Breeden Associates Inc. True, the average stock in the Standard & Poor's 500-stock index pays a paltry 1.8% dividend yield, vs. a 3.7% yield on a 10-year top-grade muni. But stocks also offer the potential for capital appreciation and dividend increases, which bonds don't when held to maturity.

Munis could also get competition from preferred stocks. These securities, because they pay fixed dividends (now ranging from 5% to 8%), are less volatile than stocks and behave more like bonds. Preferreds are just a tiny market now, but if dividends become tax free, companies will rush to issue them.

Besides thinking about what stocks and bonds you own, you have to question where you own them.

Your retirement account will be at a disadvantage if it holds dividend payers. The IRS will tax that dividend money as ordinary income when you eventually withdraw it. "Owning a dividend stock in a retirement account will be just like owning a muni bond in one," says Ed Slott, editor of a retirement newsletter. "You get none of the advantages of the tax cut."

For older investors—say, 50 and up—the best bet may be to hold all your dividend stocks outside the tax-deferred account, and leave that to otherwise taxable bonds. If you're younger, that may not be the optimal strategy. With a long time horizon, you might expect to earn far more in capital gains than from dividends, so holding stock in a tax-deferred account still makes sense.

You'll be a big beneficiary if you're a buy-and-hold sort—someone who trades little, thereby incurring little in taxable gains, and just collects dividends. Sounds kind of dull? But if the President has its way, that's the kind of behavior that will be rewarded.

By Lewis Braham, with Susan Scherreik and Carol Marie Cropper, in New York

WHAT IF DIVIDENDS BECOME TAX-FREE?

- Allocate dividend-paying stocks to taxable accounts if you own them primarily for income. If you bought them mainly for capital gains, you can leave them in a tax-deferred account.
- Consider moving some money from small-cap stocks to large caps, which offer better dividend yields.
- When choosing between similar stocks, go for the ones with the best record of dividend increases.
- Buy preferred stocks if their dividends are tax-free.
- In addition to taxes, continue to weigh such factors as the capital-gains potential and the relative riskiness of different investments as you build your portfolio.



COMMENTARY

By Bruce Nussbaum

FOREIGN POLICY: BUSH'S NEW PRAGMATISM

Not since the darkest days of the Cold War has the world seemed such a dangerous place. Iraq, North Korea, al Qaeda: All threaten the peace. But unlike the policies that clearly defined America's strategies in the conflict with the Soviet Union, containment and mutually assured destruction, U.S. foreign policy today appears confused, conflicted, and at times self-defeating.

What do Americans and people around the world see? The Bush Administration is poised for war against Iraq to prevent it from using weapons of mass destruction. But Iraq has admitted U.N. inspectors who have yet to find any. And no evidence has been presented showing that Saddam Hussein has sold any such arms to terrorists or other nations. Fellow Axis of Evil member North Korea, however, concedes that it is building nuclear weapons, has thrown out international arms inspectors, already has missiles that can hit Japan, South Korea—and perhaps the U.S.—and sells Scuds for cash to sustain its wretched economy. Yet the White House says it is willing to talk to North Korea and is using allies to help negotiate a peaceful accord with the country.

If little consistency in foreign policy can be perceived, it's because there hasn't been any. We have seen President George W. Bush embrace neo-isolationism as a candidate, unilateralism and preemption in his first year in office, multilateralism in his second, and Wilsonian internationalism (or Teddy Roosevelt-style imperialism, take your pick) as he enters his third.

The good news is that the reality of Bush foreign policy lags behind its rhetoric—and how it is perceived. The President and his White House foreign policy advisers appear to be on a learning curve. As they come up against global realities, they are shift-

ing away from their hard ideological positions toward a more pragmatic approach to world problems. The crises in Iraq and North Korea, each in its own way, have forced the Bush Administration to hew to a more traditional, multilateral, diplomatic course of action.

What's frightening is that we are witnessing the evolution of Bush foreign policy firsthand—watching the policy reversals, observing inconsistencies, hoping for the best outcomes but fearing the consequences of actions taken hastily or without adequate thought of consequence. Until the Bush Administration comes up with a clearly defined foreign policy, uncertainty, fear, and anger may continue to surround its actions, both at home and abroad.

The change in Bush's approach to foreign policy over three short years has been startling. Bush ran for office as a neo-isolationist, fearful of losing U.S. sovereignty to international organizations such as the U.N., opposed to military intervention in ethnic wars such as Bosnia, against nation-building in such places as Somalia, and determined to build a missile-defense shield to ward off foreign threats to the homeland.

In office, Bush embraced unilateralism, walking away from key international treaties ranging from the Kyoto global warming agreement to the ABM missile deal. That caused a wave of unpopularity that has only gotten worse. Recent Pew Research Center poll figures show rising anti-Americanism in countries ranging from Germany and Turkey to South Korea and Canada.

September 11 reinforced White House unilateralism. The U.S. attacked al Qaeda and overthrew the Taliban government in Afghanistan alone, with help from Britain. It did the job efficiently, largely without involving NATO or the U.N.

The apogee of the unilateralist phase of Bush foreign policy came in the

summer of 2002, when it was the *The National Security Strategy of the United States of America*, a document President Bush personally edited and sending to Congress. The national security paper emphasized unilateral preemption, and preventing any or combination of countries from allowed to ever match U.S. military might. This was clearly aimed at Iraq. Talk about imperial reach.

Yet within weeks of issuing the national security paper, Bush's foreign policy turned sharply multilateral. The shift. In fact, the new policy had already been foreshadowed by the regime change in Afghanistan. To cement its victory there, the U.S. was forced to ask Russia, Pakistan, and

Yankee, Go Home

PERCENTAGE OF POPULATION THAT VIEWS THE U.S. UNFAVORABLY

JORDAN	75%
EGYPT	69
PAKISTAN	69
TURKEY	55
ARGENTINA	49
SOUTH KOREA	44
GERMANY	35
FRANCE	34
RUSSIA	33
JAPAN	26
BRITAIN	16

SOURCE: THE PEW RESEARCH CENTER



y, Italy, the U.N., and a host of international organizations for safeguarding Kabul and rebuilding the country. The U.S. may have done, but in the end, victory depends on many others.

that dependence became evident in the use of bases in the Middle East, Turkey, and Europe to invade Iraq. The U.S. had to go through the Security Council and play by the rules of the game. In the end, President Bush challenged the world to become "relevant" again—and the U.S. learned to lead the U.N. It is an important lesson.

North Korea is teaching additional lessons to the Bush foreign policy. Preemption may be possible in a weak country such as Iraq, but it is nearly impossible in heavily armed states such as North Korea. It means the destruction of Seoul or even Tokyo. So even though North Korea may be a more powerful ally than the U.S., and even though it has spent years about building nuclear

weapons, a unilateral, preemptive military solution isn't the answer. Instead, the Bush Administration is grudgingly turning to South Korea and China to defuse the volatile situation through diplomacy. Allies count. Welcome to *realpolitik*.

There remains much public confusion and trepidation about Bush foreign policy precisely because it is in transition. Rhetoric often doesn't match behavior, conflicting voices speak at the same time, and policies are still at variance with one another. Unilateralism may be out, but prevention remains in. Does anyone in Washington really think the U.S. can prevent China from becoming a major military power?

The shifts underway in the Adminis-

Ideology gives way to *realpolitik*, and the Administration goes stumbling up the learning curve

ON THE MARCH: U.S. MARINES IN KUWAIT

tration's foreign policy are fast-paced and welcome. In fact, the multilateral approach could improve President Bush's chances of implementing his plan for rebuilding Iraq. Bush neo-isolationism has given way to a Wilsonian internationalism that dreams of remaking Iraq and the rest of the Middle East into modern, democratic societies. A democratic Iraq could tip the scales in Iran, where elections have already eroded the power of the mullahs. An arc of democracy across the top of the Middle East, including Turkey, Iraq, Iran, and Afghanistan, opening the way for the modernization of Islamic society, is possible. That would be an epic event on the scale of ending the Cold War.

But to do that, the U.S. needs a

clear, consistent foreign policy that mobilizes world opinion behind its vision. A first step would be to bring its rhetoric in line with its increasingly pragmatic approach.

Nussbaum is editorial page editor.



COMMENTARY

By Steve Rosenbush

POWELL'S BOOST FOR THE BELLS IS HALF-RIGHT

Is he crazy? In some quarters, Federal Communications Commission Chairman Michael Powell is derided as a madman for proposing to tamper with the local residential phone market. Seven years after the Telecommunications Act of 1996 was passed, competition in local markets that was once monopolized by the Baby Bells has finally begun to blossom. In the past 18 months, state regulators have forced the Bells to cut the wholesale prices they charge rivals to run their calls over the Bells' networks. Now that it's profitable for the likes of AT&T and WorldCom Inc. to enter the local residential business, they have snatched away 8.8 million, or

loss. But in exchange for phasing out those rates, he should force the Bells to get more serious about swiftly transferring customer lines to rivals when users opt to switch. Rivals say the process is too slow and expensive—and lets the Bells delay the

lators' estimates of what it would cost the Bells to rebuild their networks today, using the latest technology, which is much cheaper. So while SBC Communications Inc.'s forecasts of near-term bankruptcy if the rates continue are wildly overblown, over the long run, unsustainably low rates could plunge the industry into another round of turmoil. "Just as corporate scandals must be rooted out, regulatory foundations must be restored to reflect sounder economic fundamentals," Powell told a Goldman, Sachs & Co. conference six weeks ago.

Now about that transfer problem: AT&T says the Bells charge as much as \$125 for each one, while, according to analysts, fees for transferring long-distance customers run about \$5. If the process worked better, rivals would be willing to invest in their own networks and wouldn't need to rely on discounted wholesale rates. There's no question that upgrading their systems would cost the Bells billions—and the Bells deny that they stall or overcharge for transfers. But speeding them up and charging less for them is a fair exchange for phasing out low wholesale rates. Says the FCC's Martin: "The commission cannot ignore and must address the [access] problems that new entrants have highlighted."

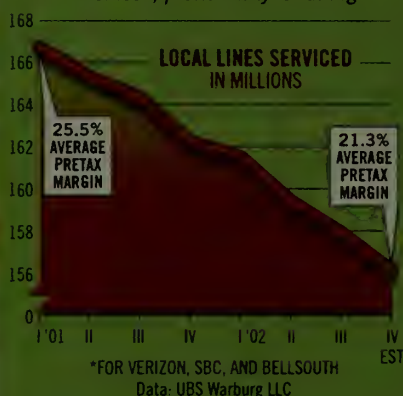
Such an outcome would bring key changes to the home phone market. The Bells would no longer subsidize their rivals' access to their networks. And rivals, deprived of cheap entry to Bell wires, would have to invest hundreds of millions in their own switches. AT&T has already installed 156 of its own local switches.

Yes, the new system would wash underfunded discounters and other riff-raff out of the residential market. But there would still be competition from cable providers who have signed 1.5 million telecom customers and wireless, which has replaced landlines for 3% to 5% of consumers. Competition would be driven by innovation, not just price. That would avoid the destabilizing price war that accompanied earlier efforts to spur competition—and fulfill the original aims of the Telecom Act.

Rosenbush covers the telecom industry from New York.

THE TOLL ON THE BELLS

*As rivals poach the Bells' local business, profitability is falling**



about 5.6%, of the Bells' residential customers.

Then along comes Powell, proposing a two-year phase-out of those lower wholesale rates. Critics say such a rollback would weaken competition and prevent prices from falling. "This will be horrible for consumers and good for the Baby Bells," says Marc Cooper, an analyst at the Consumer Federation.

Powell has got it at least half-right. He's correct in noting that the lower rates force the Bells to lease local phone lines to their rivals at a

transfer of crucial customer records for days or weeks. Such a deal has crucial support. FCC Commissioner Kevin J. Martin called for just such a compromise in a speech in December. Martin, a Republican, is likely to get support from his Democratic counterparts—and Powell would do well to follow suit.

State-imposed lower wholesale rates do hurt the Bells because they don't let them recoup the costs of building and maintaining their networks. The rates are based on regu-

EDITED BY ANNE NEWMAN

ALCOA: ALUMINUM FOILED

A SIGN THAT THE FACTORY sector has not yet pulled out of its protracted recession, Alcoa reported on Jan. 8 that it lost \$223 million in the fourth quarter on flat sales of \$5 billion. The fix? Alcoa said it would dismiss 8,000 employees, out of 127,000 worldwide, and divest itself of underperforming assets that generated some \$1.3 billion in sales in 2002. Investors seemed unimpressed with the latest restructuring: Alcoa shares slid 10.49%, to \$18.55. There's good reason for the skepticism: After reporting a \$142 million quarterly loss a year ago, the Pittsburgh aluminum giant said it would cut 6,500 employees and close plants to bolster its bottom line. Even so, yearly profits fell 54%. Among Alcoa's doubters: Merrill Lynch, which downgraded Alcoa's shares to "neutral" and cut its earnings

forecast by 12%, to \$1.27 billion, in 2003.

BANK OF NEW YORK'S BIGGER BACK OFFICE

BANK OF NEW YORK'S JAN. 8 pact to buy Pershing, the stock-clearing arm of Credit Suisse First Boston, is further proof it aims to become a top back-office player. The business lacks the glamour of investment banking but produces solid revenues. Third-quarter income from securities servicing rose 14% from last year, to \$480 million—two-thirds of the bank's income. The \$2 billion cash deal is Bank of New York's 60th such acquisition in five years. Credit Suisse got Pershing in its much-criticized 2000 deal for Donaldson, Lufkin & Jenrette.

A WIDER AVENUE OF THE AMERICAS

FIVE CENTRAL AMERICAN trade ministers were in Washington on Jan. 8 to open talks with the U.S. over a free-trade agreement like the one with Chile. The U.S. wants lower tariffs on its farm and capital-goods exports. But by cutting deals with smaller Latin nations individually, Washington seeks to pressure much-larger Brazil into supporting a hemispheric free-trade agreement. Most exports from Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua now enter the U.S. duty-free. The five nations are interested in wooing U.S. investment and in the \$47 million in direct aid serving as an inducement to the talks.

J.P. MORGAN CLEARS ONE HURDLE

J.P. MORGAN CHASE CEO William Harrison must have been relieved when his bank

HEADLINER: TED WAITT

GATEWAY TO NOWHERE?

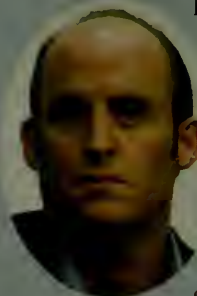
Ted Waitt's desperate effort to turn around Gateway, the company he launched from his parents' Iowa farm in 1985, is failing. On Jan. 7, the Poway (Calif.)-based PC maker warned that fourth-quarter revenues fell 12% short of expectations, at just \$1.06 billion. Blaming weak holiday sales, Gateway also said it will post a net loss of about \$58 million—38% greater than anticipated.

The bad news came just one day after Waitt unveiled plans for Gateway's second restructuring in as many years. Closings are likely for some of its 272

Gateway Country stores, which have been faltering despite heavy price promotions and a host of new products, including digital cameras and TVs. Still, Waitt—chairman and CEO—insists the stores will remain the cornerstone of Gateway's strategy. In December, the stores even began offering computer-processing services.

Wall Street clearly doesn't believe Waitt's survival strategy has legs. In the three days following the restructuring news, Gateway shares fell 14%, to \$2.96—a far cry from its 12-month high of \$10.60.

Arlene Weintraub



CLOSING BELL

ALL LEMONS

Casino stocks came up losers after a slow holiday season. Mandalay Resort Group said profits for the quarter ending Jan. 31 would be less than half the 22¢ expected. Also hit hard: MGM Mirage, down 1.4%, to \$28.89, after a profit warning. Analysts downgraded the group, citing economic fears among high rollers.



settled with insurers suing it over \$1 billion in bonds backed by an off-balance-sheet partnership tied to Enron. The bank will regain 60¢ on the dollar. Harrison had long said the bank would win, and some say his job was on the line. But J.P. Morgan and its CEO are hardly out of the woods. It will take \$900 million in charges in the fourth quarter for severance and litigation costs. On Jan. 8, UBS Warburg downgraded the bank's stock to hold (or sell, in analyst speak) because it expects lower capital-market revenue and even more corporate loan write-offs in 2003.

RELIEF OF ANXIETY AT BRISTOL-MYERS

BRISTOL-MYERS SQUIBB LOOKS ready to resolve one of its many legal headaches. On Jan. 7, the New York drug-maker said it had reached an agreement in principle to pay

\$670 million to settle lawsuits that it had improperly delayed the introduction of generic rivals to its anti-anxiety drug, BuSpar, and the anticancer drug Taxol. While analysts expressed some relief about the deal, SG Cowen Securities' Stephen Scala described the price tag as "astoundingly large." Still, Bristol has plenty of challenges, including a probe by the U.S. Attorney's Office in New Jersey into inflated wholesale inventories that will force the company to restate several years of sales and earnings.

ET CETERA...

- Intel said global tech spending would be slow in the first half.
- The SEC proposed new rules to strengthen independent audit committees.
- New York Governor George Pataki will follow California's lead on motor-vehicle emissions.

EDITED BY PAULA DWYER

WHY DOC FRIST COULD BUCK UP THE GOP

The ascent of Bill Frist to Senate Majority Leader was not pretty. The telegenic doctor from Tennessee had to step over Trent Lott's burned-out career to get to the top, and certainly hard feelings remain among some of his colleagues. But after Republicans won big in the midterm elections, the Lott debacle had sent the party into a tailspin just as President George W. Bush needed a unified front to grapple with terrorism, war, and a sluggish economy. Apparent nostalgia for a segregationist past by Lott, the once and probable Senate Majority Leader, left the GOP open to criticism that it tolerates racism.

Now, however, the party seems poised to regain its footing. Frist is one of the Senate's most conservative members, yet his non-threatening style will put a more moderate face on the GOP. His pet issues—reforming Medicare and adding a prescription-drug benefit—coincidentally are top priorities of Bush and a majority of voters. And while the two-term has little experience moving legislation through the Senate, even Democrats expect him to secure passage of the President's stimulus package mostly intact.

In short, Frist will play well in the cul-de-sacs of America, helping the Prez consolidate support among the suburban swing voters who will be crucial to victory in 2004. Says Charlie Cook, editor of the nonpartisan *Cook Political Report*: "[The changeover] was costly in the short term but probably very beneficial in the long term."

For starters, Frist, who travels to Africa every year to care for AIDS patients, personifies Bush's compassionate-conservative philosophy. And by replacing Lott, he reassures moderates who may have considered leaving the party. "While Frist is conservative, he talks about issues like health care and education, rather than jumping up and down about abortion," says Nathan Gonzales of the politically neutral *Rothen-*

berg Political Report. "Suburban voters appreciate that."

Not that Frist isn't ardently anti-abortion. Indeed, so conservatives hope he will advance their agenda. "When a Harvard-trained physician speaks on medical-related matters, he speaks with a great deal of authority," says Ken Conner, head of the pro-life Family Research Council. "He's potentially a potent force on this issue." Perhaps, but Frist's supporters say he may not push for much more than bans on so-called partial-birth abortion and cloning, preferring to focus on broader health-care issues.

That could be a boon to the Bush agenda. The President has ambitious plans to convert Medicare into a more efficient, semiprivate health plan by forcing it to compete against private insurers for elderly patients. Only then, he reasons, can America afford a Medicare drug benefit. It's a risky strategy, but Frist's medical background suggests that he may have more success than Lott, who failed to win even a limited Medicare drug benefit.

Of course, Frist's first item of business will be to usher through the President's stimulus package. He will have to cobble together a compromise that satisfies those who want aggressive tax cuts while assuaging the concerns of GOP deficit hawks. Because he's never served in the Senate leadership, Frist has no experience corraling votes. However, observes Jan

A. Thurber, an American University government professor: "He'll be able to reach out to moderate Republicans in the Northeast." That was an ability that eluded Lott.

True, Frist can count on only a two-vote GOP margin. A balancing the demands of tax-cutters and social conservatives will be tricky. But with little baggage, the appeal of Frist may be just what the doctor ordered to deliver the Bush legislative victories that now seem within reach.

By Alexandra Starr, with Laura Coh



FRIST: Nonthreatening

CAPITAL WRAPUP

SPITZER VS. THE PREZ

Spitzer shamed Wall Street, New York Attorney General Eliot Spitzer is taking his sights on the Bush Administration. His target: a regulation issued on New Year's Eve that he says will let smokestack industries increase harmful emissions without installing modern pollution controls. The rule takes effect on Mar. 3. Joined by eight other Northeastern states, Spitzer is spearheading a suit claiming that the Administration failed to follow rulemaking procedures and vio-

lated the Clean Air Act.

But challenging the regulatory process—particularly in the foggy arena of clean air policy—is never easy. And with the White House unlikely to be embarrassed into a settlement, Spitzer may be handed a rare defeat.

The crux of his argument is that the Administration is giving industry too much leeway. The new rules let companies set up a baseline for emissions by picking any two-year period in the past 10. Existing



SPITZER: In a foggy area

rules specify the most recent two years. Jonathan H. Adler, who teaches law at Case Western Reserve University, doubts Spitzer will get far: "The AGs' argument boils down to: 'We don't like the policy because we don't like what it does.' That's not a particularly strong argument." Adler expects the U.S. District Court in Washington to uphold the rule. Even if Spitzer loses in court, however, he could win big in the court of public opinion.

By Laura Coh

MY DAYS AS A

CORPORATE RAIDER



BY

✿ KENNY H. ✿

WHEN I DO DRUGS MY MOM AND DAD SPEND THEIR DAYS WORRYING INSTEAD OF WORKING. AND THAT'S GOT A BUNCH OF GUYS IN SUITS SOMEWHERE ALL STRESSED OUT 'CAUSE IT MEANS KIDS LIKE ME ARE KINDA ROBBING COMPANIES BLIND. ♦♦♦

I DIDN'T KNOW anything about business at first. I was just a kid who started smoking pot with his friends. That's all. But we got busted a lot for doing it at school and cutting class. And every time that happened, they called my mom at work.

Then she called my dad's office. And together they called my friends' parents – a bunch of times my dad even left work to look for me.

Other times they had to drive to school for talks with my teachers and missed all kinds of meetings and stuff at the office. My mom got behind on her projects. And dad freaked about reports he couldn't finish.

At home, they argued a lot about what they could do with me and finally ended up sending me to this guy like twice a week. Every time I saw him,

we'd talk for an hour. Then mom and dad started seeing him too, almost as much as I was. And when all those bills came, dad just looked at me and said I was lucky he had good insurance at his job.

That was right about the time the guys in suits really started to get stressed. And if you ask me, they probably still are. 'Cause if I can do this, so can any other kid.

WHEN EMPLOYEES have children with substance abuse problems, it may also affect productivity and healthcare costs. But employers can make a difference. Provide parents in your workplace with free, teen drug prevention articles, brochures, posters and tools by visiting our Web site: **EMPLOYERS.** theantidrug.com/workplace THE ANTI-DRUG.



NORTH KOREA
Thousands join
in a work-for-
food program



THE OTHER K

While Kim Jong Il blusters, the North's economy edges cl

Scenés from inside North Korea, the same North Korea that's threatening Asia—and the world—with its nukes:

■ Pyongyang at rush hour—or what passes for it. Everyone is shuffling home, but not to a plentiful dinner or to freshen up for a night on the town. They just want to use the elevators in their high-rises before another power outage forces them to walk up 10, 20, 30 flights or more.

■ An orphanage located an hour outside the capital. There, the evidence of malnutrition is stark. "I saw 6-year-olds who looked like 3-year-olds," says Susan L. Shirk, a political science professor at the University of California at San Diego who recently visited North Korea.

■ Somewhere inside the government's offices. A West diplomat on a recent visit is talking to North Korean officials about economic reform. But they don't quite get it. "I did not meet anyone who had even a passing knowledge of macroeconomics," says the diplomat. "They have no money, no sense of how things work, no legal framework."

As Kim Jong Il, the ruler of North Korea, enjoys his latest moment on the world stage, millions obsess about him as the great villain, the nuclear psycho. Pundits fret about how Washington should respond, exactly how many nukes North Korea has (one? two? five?), and Seoul's sudden hostility to the U.S. at a perilous moment.

Such obsessions are warranted, for Kim is a danger

International Business

THE DIVIDE
The economic gap grows wider by the day

SOUTH KOREA
Rescuing the North would cut living standards

REAN CRISIS

collapse. That's just what

scares Seoul most.

un. Fears that he may someday graduate to selling
kes to Iraq or Iran—or, worse, al Qaeda—are
t unfounded. But lost in the discussion is an equal-
important fact. Kim is also the master of a failed
te, an economy so devastated that its only reliable
ports are illegal drugs, weapons, counterfeit cur-
ncy, and, of course, uranium-enriched extortion.
m is trying to save that economy—and his regime—
th the only tool he has.

Trouble is, reviving this
nomy would be the biggest
vage job in Asia today—
uming it can be done at

DANGEROUS GAME: Kim
needs aid—so he
makes threats

all. So even if the U.S. and North Korea's
neighbors resolve the current crisis, Kim is
likely to pop up every few years waving
his nukes. The crisis goes underground,
resurfacing when Kim needs more rice,
more oil, more sustenance. "North Korea's
nuclear program is an economic, not a mili-
tary, question," says Lim Chae Jung, who
heads the transition team of South Korean
President-elect Roh Moo Hyun.

Just how bad off is Kim's kingdom?

Infant mortality in the North is
three times that in the

(LEFT TO RIGHT) WORLD FOOD PROGRAM/AP/WIDE WORLD
YUN JAL-HYOUNG/AP/WIDE WORLD; LEE/KPIX (BOTTOM) CHIEN-MING CHUNG/POLARIS



gruma

+

hp

GRUMA, the world's largest corn flour and tortilla producer with operations in Mexico, Central America, Venezuela, the U.S. and Europe, tapped hp for a new global solution. Without disrupting daily operations, hp services rebuilt GRUMA's network and oversaw a massive SAP/Windows NT implementation. And what's good for GRUMA is good for dinner tables everywhere. www.hp.com/plus_gruma

= *everything is possible*





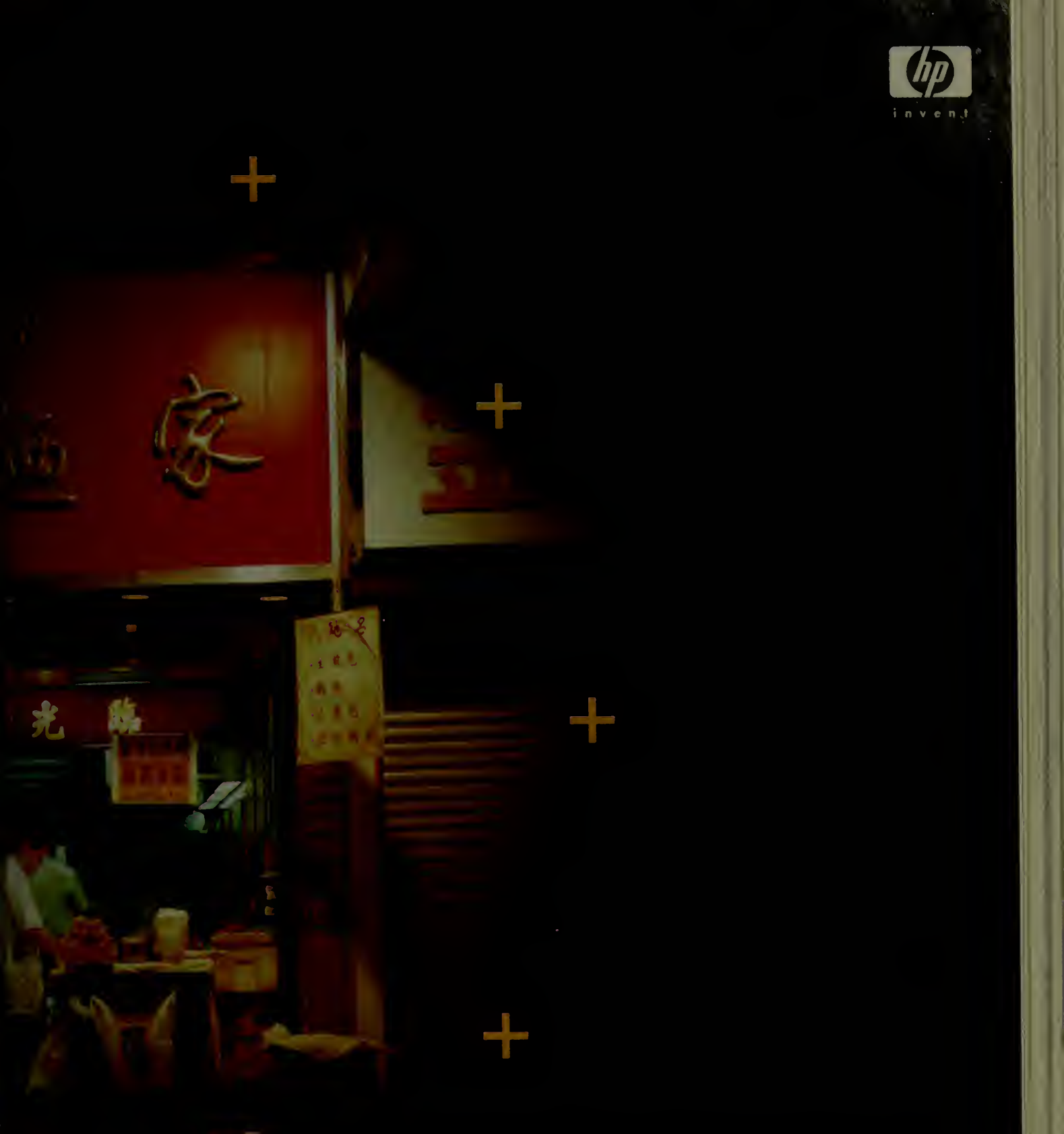
+

+

+

+

+



Five a.m. and Hong Kong is at work. Through a joint venture for the Hong Kong Special Administrative Region, hp created a Web portal providing 24-hour access to government services. Citizens can enlist for volunteer work, book marriage dates and more at www.esd.gov.hk, making Hong Kong one of the world's first governments that operates on its citizens' schedules, not the other way around. www.hp.com/plus_hongkong

ng kong government's esd



= everything is possible

South. The North's foreign trade is 1% that of its neighbor. North Korea is still reeling from the fall of the Soviet bloc, which provided markets for its shoddy steel, machinery, and arms, and gave it cheap oil and gas. The North's economic output today is 40% of its 1990 level, and per capita income stands at \$700, making it an Asian Rwanda. An acute energy shortage means normal transportation, utilities, and manufacturing are impossible. There hasn't been a repeat of the famine that killed hundreds of thousands in 1995 and 1996, but the North still needs 1.5 million tons of grain aid annually. Life expectancy fell from 66.8 years in 1993 to 60.4 years in 2001, U.N. figures show—even while the military continues to get the bulk of government spending. A prominent refugee puts it starkly. "North Koreans would rather have a war" than put up with the situation much longer, says Cho Myung Chol, an ex-professor at Kim Il Sung University who defected in 1994 and maintains contacts with those who have fled the North.

So how can this disaster be righted? Policymakers in Seoul, Tokyo, Washington, and Beijing have been thinking about this for years. In essence, the Korea watchers see four possible

A GROWING DIVIDE

North and South Korea were at similar levels of economic development in the 1970s, but the South has since surged, while the North has stagnated.

NORTH		SOUTH
22.2	POPULATION millions	47.3
\$706	ANNUAL INCOME per capita	\$8,900
\$15.7	GROSS DOMESTIC PRODUCT billions	\$421.3
\$2.3	FOREIGN TRADE billions	\$291.5
22.8	INFANT MORTALITY per 1,000 live births	7.6
1,241	PAVED HIGHWAYS miles	40,638
5	TELEPHONES per 100 residents	110
910	ELECTRICITY PRODUCTION per capita (kwh)	6,030

Data: Bank of Korea, CIA World Factbook

scenarios to get by. In this scenario, Kim maintains his grip on power and periodically plays the nuclear card to shake down the outside world. The scary thing is that any of those shakedowns could be wrong, resulting in nuclear war. Equally scary: Kim may eventually get extra cash by secretly exporting nukes to the world's bad guys. A variation on this theme is that Kim is toppled by hard-liners, who prove even more adept at peddling weapons. Yet some wonder how long this game can go on. "I think North Korea may be reaching the end of its muddling-through period," says Marcus Noland, a senior fellow at the Institute for International Economics in Washington. The strain of feeding the masses while keeping the military satisfied, could prove intolerable even for Kim. "Pyongyang is on permanent emergency relief and falls further and further behind the rest of Asia in everything except nuclear arms and missiles," says Nicholas Eberstadt, a Korea expert at the American Enterprise Institute. Which leads to scenario No. 2:

OUTRIGHT COLLAPSE

Refugees could stampede by the millions out of the North. The military could stage a coup. Or Kim and his circle could end up before a Ceausescu-style firing squad as the oppressed of Pyongyang rise up. True, all of these are hard to imagine right now. "People have been talking of collapse for 10 years, and there's no sign of it," says a high-ranking U.S. State Dept. official. Then again, the fall of the Berlin Wall was unimaginable until weeks before it happened.

Collapse could be good news because it would give the U.S., China, and South Korea a chance to go in, stop the starvation, and install some sort of denuked, quasi-market economy—an economy propped up by billions in aid, but something reformers could work with. But a rush to unification

International Business

scenarios. Two of them are grim. The other two have semi-happy endings, but they'll take a big dose of luck and skill to pull off. Here they are:

THE NORTH MUDDLES THROUGH

That's how Kim Jong Il has played the game so far, cajoling enough aid from the U.N., the Chinese, and the South Ko-

reans for nearly a year.

AUGUST 1945

Allied forces liberate Korea from Japanese colonial rule. Soviets occupy north, U.S. troops the south.

1950-1953

North Korea invades South. U.S. and China fight proxy war on Korean soil, ending in stalemate and truce but no formal peace.

JANUARY 1968

North Korea seizes U.S. spy ship Pueblo with 83 sailors aboard, holding

JULY 1972

North and South agree to principle of peaceful reunification, but 11 months later talks are suspended.

NOVEMBER 19

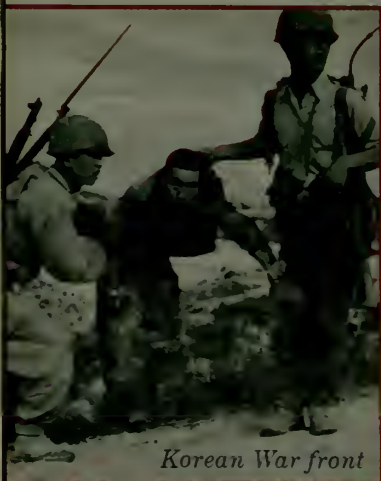
South Korean airline planeloads, killing 115. Korean agent admits planting bomb.

JULY 1994

North Korea's "Great Leader" Kim Il Sung dies. His son "Dear Leader" Kim Jong Il takes over.

OCTOBER 199

North agrees to freeze nuclear arms research in exchange for energy supplies, after threatening to turn South Ko-



Korean War front

A 50-YEAR FACEOFF



USS Pueblo

d cost the South billions. Seoul has
 lied the strains that East Germany's
 apse put on West Germany, and
 ws it would fare far worse. The South
 ld have to absorb poverty-shattered
 therners at a cost of tens of billions of
 ars annually for a decade or more—
 ch could roll back the South's living
 ndard by more than 10%. Cho and
 rs are hoping that the North will
 e to its senses and change before it's
 late. That's the third scenario:

NORTH REFORMS

re are actually some signs of this. In
 , North Korea increased the price of
 l and other subsidized commodities,
 ended rationing of some items. State
 is were given flexibility to sell excess
 ds on the open market, and companies
 e been pressured to cover their cost
 roduction instead of relying on state
 douts. So far, the measures have re-
 ed in little more than rapid inflation. And outside ob-
 vers can't figure out if Kim Jong Il is just tinkering or se-
 sly trying to replicate Beijing's success in moving from a
 ined to a market economy.

f Dear Leader Kim sticks with the reforms, South Korea
 nds ready to help. The South's state-funded Korea Devel-
 opment Institute has a blueprint for coaxing 7% annual
 wth out of North Korea. The KDI figures that up to \$2 bil-
 in foreign aid will be needed annually to lift per capita in-
 e in the North to \$1,000 by 2008, feed the population, and
 act the capital needed to upgrade infrastructure.

One question is how the North would handle such assis-
 e. Kim's acolytes have studied the Soviet collapse and con-
 led that the system there failed because of "infiltration" by
 ocratic institutions. Thus, the South Koreans accept that
 cial "islands" of free-market economic activity would re-
 in isolated from the rest of the North to prevent political
 amination. "They'll be free-market concentration camps,"
 s William Drennan, a Korea scholar at the U.S. Institute
 eace. China started off with such isolated economic zones,
 l the strategy has paid off handsomely.

Some of these experiments are already happening. Kim
 g Il has set up special economic zones for foreign compa-
 s on the east coast at Mt. Kumgang and on the Russian



THE SINK Billions are needed for infrastructure projects such as this rail line

border, although neither has been particularly successful. Another zone on the Chinese border turned into a fiasco when Yang Bin, the Chinese-born entrepreneur chosen to run the city, was arrested by Chinese authorities in October and later charged with tax fraud. A fourth zone is in the works at Kaesong, 10 miles north of the DMZ near Seoul. South Korean companies could start making labor-intensive products such as clothing and toys there within a year once the current crisis is resolved. Roads and a railway have already been built to the border, leaving just a short hop across the demilitarized zone to be completed.

Still, many South Koreans remain skeptical. "The North can always make a U-turn once it concludes capitalist in-
 fluenza threatens its regime," says Lee Ju Yeong, president of Taechang Inc., which has invested \$20 million in a joint venture that bottles mineral water in the Mt. Kumgang area.

Yet if the North steadily developed into a China-like economy, then the fourth scenario might still play out:

GRADUAL MERGER WITH THE SOUTH

This is the plan cherished by Seoul—a steady, decades-long increase in cooperation, with investment inexorably im-
 proving life in the North. Some strategists have proposed a system of incentives—perhaps granting ownership of hous-



Kim Dae Jung funeral, 1994

ear "sea of fire."

DECEMBER 1996

Korea joins first-
 Organization for
 mic Cooperation
 elopment.

FEBRUARY 1998

South Korean President
 Kim Dae Jung takes of-
 fice; launches "sunshine
 policy" expanding con-
 tacts with North.

AUGUST 1998

North fires long-
 range missile over
 Japan into Pacific.

JUNE 2000

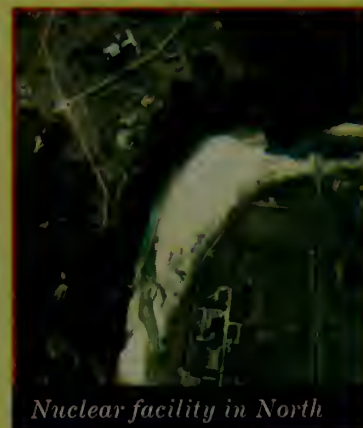
Kim Jong Il and Kim
 Dae Jung meet in
 Pyongyang for first
 intra-Korean summit.

OCTOBER 2002

North acknowledges it has
 violated 1994 agreement
 to abandon nuclear
 weapons development.



*Kim meets
 Kim*



Nuclear facility in North

DECEMBER 2002

Kim Jong Il says he will
 reactivate plutonium-pro-
 ducing reactor and ejects
 U.N. inspectors.

es and land—to keep North Koreans in the North, even after the border opens up. Under a plan developed by the Seoul-funded Korea Institute for International Economic Policy, anyone who moves to the South immediately wouldn't enjoy such benefits. "Preventing a sudden integration of labor markets in North and South Korea will minimize un

International Business

employment for North Koreans, maximize private-sector investments, and minimize unification costs," says Yoon Deok Ryong, a researcher at the institute.

A reunited Korea: It seems almost impossible to imagine in this season of fear. But somehow the economic catastrophe that is North Korea has to be resolved. Economic reforms are "critical because the North faces dangers of collapse even without any outside attack," says Park Sung Hoon, an adviser to Kim Dae Jung, South Korea's outgoing President.

A lot will depend on the U.S.'s approach to the current crisis. Economic containment may force the North to abandon its nuclear program—but only if the U.S. can get Chi-

na and Seoul to go along, both big ifs. And even in that nario, an impoverished, well-armed North would still pose a threat to the region. Negotiations would help, and the I Administration is now hinting it may launch direct talks with Pyongyang—clearly the preference of North Korean neighbors.

And then there's Dear Leader himself. His gift for stage drama is unmatched. His ability to manage an economy seems minimal at best. Yet he is the main player. "I don't love him or hate him, Kim Jong Il has been and will be in the foreseeable future the dictator with all the powers," says adviser Park. "You can't exclude him or refuse dialogue with him." That's why the economic salvation of North Korea remains one of Asia's toughest riddles.

By Moon Ihlwan in Seoul

Brian Bremner in Tokyo

BusinessWeek online

For more coverage of the Korean crisis, visit
www.businessweek.com

WHY JAPAN JUST MIGHT BUILD NUKES

Ask young South Koreans if they're concerned about North Korea's nuclear ambitions, and chances are the conversation will soon turn to a popular novel, *The Rose of Sharon Has Blossomed*. It tells the story of a South Korean scientist who clandestinely helps the North develop a nuclear bomb. Later, North and South Korea join forces to destroy the aggressor threatening their peninsula: Japan.

No wonder, then, that Tokyo is worried about North Korea's nukes. If Pyongyang were to launch a nuclear warhead, a likely target would be Japan, still despised for its brutal rule on the Korean peninsula in the 20th century's first half. "North Korea now regards Japan as its biggest regional threat and the country most likely to go nuclear in the future," says Takashi Hirose, an expert on Japanese nuclear issues.

That has policymakers in Tokyo and beyond considering the once-unthinkable prospect of a nuclear-armed Japan. The U.S. "should remove [its] objections to Japan developing nuclear weapons," said Senator John McCain (R-Ariz.) on Jan. 5. The following day, the Cato Institute, the conservative think tank, recommended that the U.S. reduce its military forces in South Korea and Japan and give both countries a nuclear green light. Even in Japan, some senior politicians have broken a long-standing taboo by discussing the possibility of a nuclear



Time Warner A Japanese missile test

buildup. Yasuo Fukuda, the chief Cabinet Secretary, last June said that "depending on the world situation, circumstances and public opinion could require Japan to possess nuclear weapons." Shinzo Abe, the Deputy Cabinet Secretary, said later that it would be acceptable for Japan to develop small, strategic nuclear weapons.

Granted, there are big legal, cul-

tural, and political barriers to a nuclear Japan. The memory of the atomic bombings of Hiroshima and Nagasaki remains burned into the national psyche, and historically some 80% of Japanese are opposed. Furthermore, Japan would have to amend its constitution, which bans nuclear arms. "U.S. policymakers talk about getting Japan to make nuclear weapons, but it will never happen," insists former diplomat Satoshi Morimoto, now a Takushoku University security expert.

If Japan could get beyond the hurdles, it likely wouldn't need long to develop a bomb. It has five tons of plutonium stored in the nuclear research center of Tokai-mura, north of Tokyo, and its scientists know how to convert it to weapons-grade material. Hideyuki Ban, director of the nonprofit Citizens' Nuclear Information Center, says Japan could build a nuclear bomb within months. And its civilian rocket- and satellite-launching system could easily be converted to military use. Japan also has superbly equipped land, sea, and air forces that could deliver medium-range nukes to North Korea.

But if Japan decides to build its own nukes, get ready for an Asian arms race. China would likely want to boost its arsenal, which would prompt India to develop more nuclear weapons, which would spur Pakistan to do the same—and on and on into an ever more perilous future.

By Irene M. Kunii in Tokyo



EUROPE

WEIGHED DOWN

Taxes, the euro, and war worries are slamming Europe

European business folks are green with envy. Their U.S. competitors came back to work after the yearend festivities to news that President George W. Bush plans to stimulate the economy with massive tax breaks and increased government spending. All the European bosses found waiting for them were rafts of worse-than-expected economic data and reports that their governments were more inclined to raise taxes than cut them. "Absolutely, we're jealous," says Dieter Muehl, new CEO of B Group, the large German bank.

To intensify the bad factor, many European executives spent the first days of the New Year cutting their forecasts. Louis Schweitzer, CEO of French auto maker Renault, for example, says demand for cars in Western Europe could drop as much as 6%. "It's clear that

the U.S. is going to grow more than Europe," adds Pierre-Alain de Smedt, Renault's executive vice-president.

Things looked gloomy enough before the Europeans headed off for their long holiday break. In the face of crumbling business confidence and lackluster retail demand, economists had already reduced their 2003 euro zone growth forecasts from an average of almost 2% to less than 1.5%. But over the Christmas season, the outlook suddenly deteriorated. The increasing likelihood of a war

in Iraq prompted already cautious Continental consumers to trim spending even further. As if that wasn't enough, the depressed German economy, which accounts for 30% of euro zone gross domestic product, took a turn for the worse. Joachim Fels, co-head of the European economics team at Morgan Stanley in London, expects the zone's \$7 trillion economy to contract by 0.1% in the first quarter. He doubts it can grow more than 1% over the year. By contrast, the U.S. could grow by 2.5%.

One of the biggest drags on the European economy is the strength of the once-sickly euro, which has appreciated more than 16% against the dollar over the past year. Admittedly, the currency's strength makes imports cheaper, keeps inflation in check, and allows the European Central Bank to justify interest-rate cuts. But it also makes many euro zone goods more expensive abroad, thus depressing exports. "We are definitely feeling the impact in our daily sales activity," says Frédéric Weishaar, vice-president for sales and marketing at Pechiney, Europe's largest aluminum company. Merrill Lynch & Co. analysts, anticipating a further 10% strengthening of the euro this year, have cut estimates of Pechiney's operating earnings by 18.8%, to \$470 million.

A strengthening euro also depresses the value of repatriated earnings from foreign subsidiaries. Many companies—for instance, aerospace giant European Aeronautics, Defence & Space Co. and mobile phone goliath Nokia Corp.—hedge their currency exposure. But few are fully hedged. On Jan. 7, the \$76 billion-in-sales Dutch grocery chain Royal Ahold announced that currency movements would have a "strong negative impact" on 2002 earnings, which could slump as much as 8%. Sales figures for its U.S. subsidiaries, Giant Food Inc. and Stop & Shop Cos., will drop when converted from dollars into euros.

The recent surge in oil prices is

Double Whammy



adding to business woes. Most corporate planners in Europe expected the cost of a barrel of oil to average \$25 over the coming year. But it had already topped \$30 by Jan. 6—a rise of nearly 50% since the beginning of 2002. Rising energy costs have erased any benefit from the 50-basis-point interest-rate cut that the ECB made on Dec. 5, because the extra money consumers and companies spend on oil and gasoline isn't available for other activities.

Meanwhile, the prospect of a Middle East war has frayed shoppers' nerves. European Union surveys show that consumers in the 12 euro countries were more pessimistic in November than at any time since 1997. "The outlook is decidedly unfavorable," says an executive at German retailer Metro.

There is probably worse to come. With unemployment rising, tax receipts falling, and workers threatening to strike, Germany's recently reelected Social Democratic-Green government may have to increase taxes further. Meanwhile, Berlin is making little effort to achieve the structural reforms business says are essential. "The government doesn't seem to have a program," says Riedel.

So how about a nice, fat stimulus plan—a la Bush—in France, Germany, and the Benelux countries? Sorry. The Growth & Stability Pact, which was designed to impose limits on spending and so prop up the euro, now gives policymakers little room to maneuver. Of course, the pact allows member countries to spend more if they've built up budget surpluses. But when was the last time Germany and France had leftover money? "Europe has to address the fact that we've got some of the basics wrong," says Gordon Stewart, a Glasgow-based director of PRTM, a U.S. tech-consulting firm.

The one hope is that the situation is now so dire that politicians, in particular those in Berlin, will embrace real change. "The combination of an economy slipping back into recession again, social security contributions spiraling out of control, and additional tax hikes is a harbinger of economic and political crisis," says Elga Bartsch, an economist at Morgan Stanley in London. "Such a crisis is exactly what Germany needs."

Maybe. But turning crisis into opportunity is not going to happen in the short term. It could be years before euro zone businesses stop envying their U.S. counterparts.

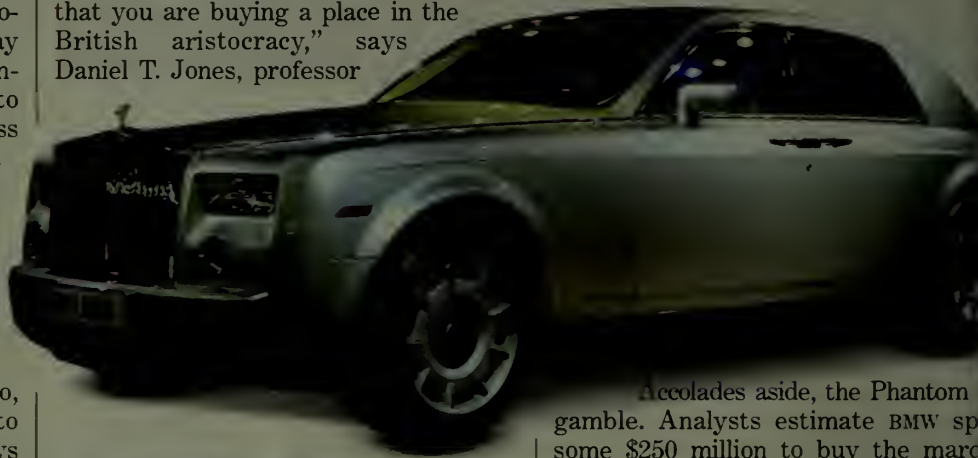
By David Fairlamb in Frankfurt, with Carol Matlack in Paris and Christine Tierney in Detroit

AUTOS

IT'S A ROLLS ALL RIGHT

But can BMW's Phantom scare up fancy sales?

When BMW bought the Rolls-Royce Motor Cars marque back in 1998, it took on a big challenge. In a complicated deal that split the assets of Rolls and Bentley with Volkswagen, BMW acquired the 99-year-old brand name of the world's most elegant car, but nothing else. So the company had to start from scratch to build a car worthy of the Spirit of Ecstasy hood ornament and the thrilling snobbishness she evokes. "The dream behind buying a Rolls is that you are buying a place in the British aristocracy," says Daniel T. Jones, professor



NOW THAT'S RICH

The new \$320,000 Phantom delivers:

ELEGANT EXITS Rear doors are hinged at the back

OVER THE TOP Teflon-coated umbrellas pop out of rear doors, ready to shield coiffed hair

GUARDING THE LADY Hood ornament can be lowered

of manufacturing at the Cardiff University Business School. Delivering on that fantasy is a tough assignment for a Munich-based auto maker that caters mostly to businesspeople, not bluebloods.

Well, the day of judgment has arrived. On Jan. 3, BMW unveiled the Phantom at Rolls-Royce's new \$100 million plant in England. Measuring almost 19.5 feet long and weighing 5,478 pounds, the car is imposing, with a \$320,000 price tag to match. The look is indisputably Rolls, from the big grille to the rear-hinged back doors, which let passengers grace-

fully exit the car—just the thing for carpet appearances. Inside, no lux has been spared: It takes 16 cowh and an abundance of hardwood venee outfit the interior. "Our aim is to recre the legend of Rolls-Royce, to rekind the flame that burned so fiercely in heyday of the marque," said Rolls-R CEO Tony Gott at the car's Jan. 5 U debut at the Detroit Auto Show.

Still, there's no denying that Phantom is of mixed parentage. though conceived by a British-led sign team, the car features BMW touc such as a body of lightweight alumin alloy. The new Rolls V12 engine borrows from the BMW 7 series: It do zero to 60 in 5.7 seconds. "They modernized the brand in a way that evokes the traditional values," says san Jacobs, president of Jacobs & Associates, a Rutherford (N.J.)-based f that tracks the luxury-car market.

Accolades aside, the Phantom gamble. Analysts estimate BMW sp some \$250 million to buy the marq build the plant, and develop the car. I it's rolling into a marketplace far l inviting than the era of dot-com milli aires in which it was conceived. T global car market, down 1% in 2002, v likely be flat in 2003, says Walth (Mass.)-based Global Insight Inc. A the ultraluxury segment is bursting w new entrants from Mercedes-Benz, Be ley, and soon Aston Martin.

The Germans figure the party's j getting started. "If you look in Mia and Palm Beach at all the boats a private aircraft, you'll see there's a v large market for products like th 'Should I buy a Rolls-Royce or a villa Saint-Tropez?' That [is] the mind-se says Tom Purves, head of BMW No America LLC. The company is shooti for sales of 1,000 Phantoms a year or the Goodwood plant reaches full p duction—no mean feat, consideri Rolls-Royce's annual sales have dw dled to only a few hundred. The Flyi Lady is spreading her wings once mo

By Heidi Dawley in London with bureau repo

EDITED BY ROSE BRADY

IS OPEC ABOUT TO LOSE CONTROL OF THE SPIGOT?

For the past three years, OPEC has done a remarkable job of managing output to keep oil prices around \$25 per barrel, which the cartel thinks is the right price to bring in plenty of revenue without killing off world growth. OPEC's key player, Saudi Petroleum & Minerals Minister Ali Naimi, has deftly cracked the whip to keep the cartel's key crew of developing countries in line.

But Naimi thinks the latest spike to about \$30 per barrel—prompted by an oil workers strike in Venezuela—is too much of a good thing. The Saudis are now calling for production increases of up to 2 million barrels per day to make up for lost Venezuelan crude and oil prices before they damage the world economy. “We start worrying whenever we see prices go above \$30 per barrel,” says a Gulf OPEC delegate. The cartel will meet on Jan. 12 to discuss output.

Despite the current concern over oil prices, crises such as the Venezuela debacle and the U.S. standoff with Iraq have generally worked to OPEC's benefit by firming up otherwise soft markets. But OPEC's run of good fortune may be about to end. Political and economic pressures are building that could put downward pressure on prices. Although analysts say prices could soar to over \$40 per barrel if production in Venezuela, Iraq, and some other Gulf states is hit at the same time, they could eventually swing back to \$15. The policy of post-Saddam Iraq, Russia's ambitions, and fissures between Gulf Arabs and OPEC's poorer members would all play a role. “These combined pressures make OPEC's current price-defense policy appear untenable,” says Raad Alkadiri, an analyst at PFC Energy in Washington.

Take the case of Nigeria and Algeria—both with rickety economies and growing economic problems that could strain the cartel. To raise revenue, their governments have struck

agreements with Western companies that will lead to an additional 1.5 million bbl. in capacity—a 70% increase over their current quotas. Both are pushing OPEC to boost their production ceilings, which could lead to a clash with the Saudis.

Venezuela, meanwhile, could also turn into an OPEC renegade. The government is losing billions of dollars in the oil workers' strike, aimed at toppling President Hugo Chávez. Either he or a new regime, if he is ousted, may want to produce flat-out once the strike is over. Finally, output from non-OPEC producers such as Russia, Kazakhstan, and various

West African countries is likely to grow by 1 million bbl.-per-day annually for the next few years, says PFC Energy. That's almost as high as expected growth in world demand.

But the wild card is Iraq. Saddam's pariah status has helped OPEC's unity by preventing the development of Iraq's oil resources, second only to Saudi Arabia's. Few analysts, though, believe a new regime in need of funds will stick to Iraq's 3 million bbl.-per-day OPEC quota. “Iraq will go ahead in expanding capacity and production irrespective of OPEC,” says Fadhil Chalabi, a former Iraqi oil official who is now executive director of

London's Center for Global Energy Studies.

The Saudis are watching developments closely. Analysts think Naimi, along with his counterparts in Kuwait and the United Arab Emirates, may open the taps to punish Russia and other producers encroaching on the Saudi market share. Such a move could come when the U.N. lifts sanctions on Iraq. “If there is a price war, it will not stay for more than a year,” says the Gulf OPEC official. “The marginal fields will disappear, and investment in new fields will go down sharply.” One way or another, OPEC is entering a tumultuous phase.

By Stanley Reed in London



VENEZUELA: Future OPEC renegade?

GLOBAL WRAPUP

BEHIND SADDAM'S SHAKEUP

The surprise ouster on Jan. 7 of long-standing Iraqi Oil Minister Amer Rashid is raising eyebrows in the world oil industry. Officially, Rashid, 64, is being retired on account of age. But his replacement by Samir Aziz al-Najm, a close aide to Saddam Hussein with long ties to Iraqi intelligence, is being seen as a move to tighten security in the oil sector in advance of war. Some also speculate that Rashid's old links to Iraq's weapons program may have compro-

mised him. And his wife, Rihab Taha, is a top biological weapons specialist.

But there may be another reason. Industry sources say Rashid was behind the cancellation in mid-December of a multibillion-dollar deal with Russia's Lukoil to develop Iraq's huge West Qurna oilfield. That caused him to run afoul of Saddam's son Uday, who was key in getting the deal approved in 1997, say Arab press accounts. Rashid, a former Army general, also tried to put some order in Iraq's oil smuggling, which analysts say has profited the Saddam clan.

ISRAEL WANTS MORE U.S. AID

► Cash-strapped from conflict with the Palestinians and a two-year economic crunch, the Israeli government asked the U.S. in early January for \$4 billion in new military aid and \$8 billion in loan guarantees to finance public works projects and spur job creation. Washington sources say the Administration is likely to be receptive to an aid package but is unlikely to allow U.S. money to finance Jewish settlements on the West Bank. The U.S. provides Israel with some \$3 billion in aid each year.

BLOODIED AND BOWED

CPAs are trying to salvage some political clout. But they can't even rally behind their chief trade group

In 2000, the accounting industry's potent Washington lobby trained its big guns on Securities & Exchange Commission Chairman Arthur Levitt Jr.—and blew him out of the water. Marshalling dozens of members of Congress, the accountants easily turned back Levitt's proposal to rein in their lucrative practice of consulting on the side for the companies they also audit. But now, barely two years later, they find themselves in disarray. Shunned by politicians who once courted them and stripped of their cherished right to regulate their own profession, they've become the butt of jokes by late-night comics.

What changed? Enron, WorldCom, and other massive audit failures clearly damaged the profession. But more and more accountants are blaming their precipitate fall on the industry's most important group, the 340,000-member American Institute of Certified Public Accountants. Under CEO Barry C. Melancon, they charge, the AICPA neglected its duty to police auditors and enforce financial discipline on Corporate America. Worse, when the Enron Corp. scandal struck, the accountants' lobbyists were among the last to recognize that the world had changed. They steadfastly opposed reform. The hard-line strategy backfired big time when the Sarbanes-Oxley Act of 2002 snatched away one of the AICPA's main reasons for being: oversight and discipline of auditors.

Critics say the AICPA can't be trusted to rewrite audit standards because its main focus is to shield members from liability

Now, the New York-based AICPA is struggling to salvage its influence. It wants to continue to write audit standards—the rules that accountants must follow when they audit a public company's books. The AICPA argues that its members have the front-line expertise needed to write the rules. But critics—including three former chief accountants of the SEC—contend that the AICPA has consistently tilted its standards to shield big auditing firms from liability when they fail to detect financial fraud. Both sides are lobbying intensely at the SEC and the new Public Company Accounting Oversight Board, and the outcome will have major consequences for investors and companies. “This will be the bellwether of whether the new board is an effective oversight group,” says Douglas R. Carmichael, an accounting professor at Baruch College and a former AICPA staffer.

The anger over the AICPA's fading role and influence is focusing on Melancon. Critics charge that the 44-year-old Louisianan neglected the AICPA's professional mission in favor of disastrous business ventures that have driven the association's \$171 million annual budget into the red. “There has been a tone at the AICPA that emphasized consulting and other services,” says Robert Israeloff, a former AICPA chairman and a partner in Israeloff, Trattner & Co., a mid-size New York firm. “The franchise that should have been defended was the audit.”

Israeloff, who nominated Melancon as CEO in 1995, now says it's “a fair question” whether he should be replaced. Another AICPA ex-chairman, J. Michael Cook, former CEO of Deloitte & Touche LLP, goes further: “We need major change in the leadership if it is going

An Accounting of

How the American Institute of Certified Public Accountants lost influence in Washington and with its members

TOOK A HARD LINE against reform, so lost the chance to influence Sarbanes-Oxley bill that stripped AICPA of auditor-oversight power

TRIED TO CO-OPT post-Enron reform drive by proposing a toothless regulator, angering Congress

to be an effective professional organization. The people there today do not have credibility.” At the same time, the New York State Society of CPAs and a band of individual CPAs with a Web site called cpas4reform.com are pushing for change in how the AICPA is run that would reduce Melancon's power.

Melancon, whose contract as CEO runs to 2005, counters that the profession has steadfastly worked to improve audits and that he should certainly keep

ON MELANCON'S WATCH

The association's CEO is blamed for neglecting the audit franchise in favor of disastrous business ventures

Melancon also pushed a new credential for non-CPAs that would certify them as business advisers with "breadth of knowledge, strategic focus, and professional rigor." The credential—variously called "XYZ" and "cognitor"—was intended to broaden the institute's ranks when accounting enrollment in business schools was plummeting. But members rejected the idea 2 to 1 in a vote early last year and the AICPA dropped it, after spending \$4.7 million on its aborted launch.

Meanwhile, the AICPA failed to defend the integrity of audits and financial statements, the very underpinning of the profession, says William D. Travis, managing partner at McGladrey & Pullen LLP, a midsize auditing firm based in Bloomington, Minn. The AICPA is only now beefing up efforts to train auditors to detect fraud, he says. The institute also failed to defend accounting standards from corporations that wanted to twist the rules to hide debt and inflate earnings. Adds Travis: "The profession should have stood up and said, 'We're going too far.'"

Instead, the AICPA used its massive political capital to defend the management- and computer-consulting practices of its biggest members—the Big Five until Arthur Andersen

LLP collapsed last year. Melancon led the charge that defeated Levitt's 2000 proposals to restrict firms from consulting for companies they also audited. But that victory proved pyrrhic when Enron and then WorldCom Inc. reported huge frauds that were missed by auditors. Blame focused on the auditors' dual roles and conflicts of interest.

Worse, the accounting lobby's 2000 success emboldened it to take a similar tough stand against reforms last year—a strategy that backfired. To head off reform, the AICPA negotiated with SEC Chairman Harvey L. Pitt to propose turning over auditor discipline to a board with a majority of non-CPA members. Critics quickly concluded that this board would be easily manipulated by the accountants. Still, the AICPA's once-

feared lobbyists figured they could halt Senate legislation that would install a tougher, more independent overseer.

WorldCom's admission last June that it had overstated its results by billions of dollars changed that. The CEOs of the Big Four realized that Congress was certain to act and hastily arranged a meeting with Senator Paul S. Sarbanes (D-Md.), then chairman of the Senate Banking Committee, who with Congressman Michael G. Oxley (R-Ohio) sponsored the reform bill. After the CEOs pleaded for easier provisions in the bill, Sarbanes reached for a stack of printed e-mails and faxes that the AICPA had sent to mobilize its members. The missives consistently opposed any legislation. Sarbanes' message: The AICPA's stiff opposition had wiped out any influence the accountants might have



CORRECTIONS OFFICERS
Bush with Oxley (left)
and Sarbanes after signing the reform bill
industry hard-liners
steadfastly resisted

had over the final bill.

Now, the AICPA's influence has dimmed even further. In the wake of its defeats, members cut back sharply on donations to its political action committee. The PAC raised \$881,235 in the 2002 election cycle, down from

\$1.38 million in 2000. The PAC was forced to dip into its reserves to maintain its contributions to candidates.

Still, Melancon and AICPA Chairman William F. Ezzell Jr. hold out hope that the AICPA can keep the job of writing auditing standards for the new oversight board. Ezzell points to 1,000-plus pages of standards that the AICPA has developed as proof of its qualifications. "With sunshine on the process, I see no reason why it wouldn't make better sense to have people who know how to do audits leading the effort," he says.

No doubt the oversight board will need professional expertise. But given the present state of the AICPA, the board is likely to look for it elsewhere.

By David Henry in New York and Mike McNamee in Washington

akes

ED AUDIT FAILURES to
without taking strong steps
online auditors and tighten
standards

ED A FOR-PROFIT DOT-COM to
and services in competition
of its members

UT TO CERTIFY NON-CPAs with
professional credential that
overwhelmingly rejected

s job. "There is no one who works
order at making sure the profession
successful than I do," he says.

But in fact, Melancon's ambitions for
the AICPA have hurt him greatly. He
championed an ill-fated Internet foray
late 1999 called CPA2biz.com, a for-
profit venture to sell accounting and oth-
er business services online to members
and their clients. But in some cases it
competed with members; the portal lost
money and had to be restructured.

COMMENTARY

By Amy Borrus

TIME FOR MUTUAL FUNDS TO BARE ALL

Last year's Sarbanes-Oxley Act reforms beefed up the accountability rules for Corporate America but overlooked a key player: mutual-fund companies. While the fund industry is not scandal-ridden, neither is it as investor-friendly as it likes to think. Funds still withhold crucial information about accounts from their shareholders. The Securities & Exchange Commission is trying to prod them in the right direction by proposing that mutual funds give shareholders more information on what investments the funds hold and how they vote them.

But with the climate favorable for reform, the SEC should push for even more disclosure. "It's time to pierce the veil" of mutual-fund management, says John C. Bogle, founder and ex-chairman of Vanguard Group Inc.

Few of Bogle's peers agree with him. Fund executives, who demand all manner of disclosure from companies they invest in, balk at divulging similar information to their own investors. Nevertheless, in the next few months, the SEC is expected to adopt both proposals now on the table.

First, it wants to require funds to say how they vote the shares they hold in corporate proxy contests. The funds are fiercely opposed, saying it would be costly to compile and distribute this information and might politicize the voting. But the measure has support from key lawmakers on Capitol Hill, and the overwhelming majority of the 7,500 letters submitted during the comment period are in favor. The move would unmask conflicts of interest that cause funds to rubber-stamp management

policies. Since corporations hire fund companies to administer pension and 401(k) plans, funds are loath to bite the hand that feeds them by opposing management in proxy contests.

Less controversial is the SEC's call for funds to reveal their portfolio holdings every three months, instead of twice a year. Already, about 70% of funds tell fund trackers what's in their portfolios at least quarterly. Under this proposal, shareholders also would get more useful fee data.

Funds would be required to report semi-annually how much investors paid in fees during the previous six months for a hypothetical \$10,000 account. Stating fees in dollars instead of as a percentage of assets would make investors more aware of what they actually pay funds. That could encourage funds to curb expenses.

With the wind at its back, the SEC shouldn't stop there. Requiring funds to reveal their trading costs, portfolio managers' pay, and the factors

affecting investment performance would give fund shareholders an

even clearer picture of how their money is being managed.

After management fees, trading

costs are the biggest expense, but they aren't included in the expense ratios that funds must make public. Funds pay brokerage commissions and bid-ask spreads that range from 0.5% to 0.75% of assets, so it's not surprising that academic studies show that the more a fund manager trades, the worse the fund performs. Fund portfolios turn over an average of 110% a year. So if fund managers had to disclose their trading tabs, they might switch to lower-trading strategies. "Turnover would drop drastically," says Mercer Bullard, president of shareholder advocacy group Fund Democracy Inc.

It's also time to draw back the curtain on portfolio managers' compensation. Fund directors now tell customers the overall fee they pay for advisory services, but they don't break out what—or how—individual portfolio managers are paid. If, for example, compensation is based on pretax returns, why would a fund manager take care not to run up a big capital-gains-tax bill, which investors, not the fund, pay? "It's hypocritical of funds not to disclose this, since it's information they routinely look at" when investing in companies, says Don Phillips, managing director of fund-tracker Morningstar Inc.

In addition, funds need to do a better job of telling investors what's happening to their money. The "management discussion" sections of shareholder reports often are boilerplate summaries that don't explain the key factors that drove portfolio performance. An SEC checklist of points to highlight—industry exposure, best- and worst-performing stocks, changes in investing strategy—would be a good start.

The likely new SEC chairman, William H. Donaldson, hasn't hinted at his priorities. But if he wants to show that he's an investors' advocate, he needs to back vigorously the two proposals now in the works—then promise to keep on going.

Borrus covers financial regulation in Washington.



COUGHING UP MORE INFO

The SEC wants funds to disclose what shares they own more often and how they vote them.

But the funds should also:

REVEAL their trading costs

DISCLOSURE how portfolio managers are compensated

MAKE their management reports more informative

By Emily Thornton and Heather Timmons

DIRTY RESEARCH: NOT ONLY ANALYSTS ARE TO BLAME

Wall Street's blame game over tainted stock research is far from over. In fact, it's gaining momentum. Even before firms have coughed up the \$1.4 billion penance they agreed to pay in a December global settlement, regulators are considering whether to bring cases against analysts' supervisors. The NASD, for example, is interviewing Goldman, Sachs & Co. executive Andrew J. Melnick, who supervised Internet guru Henry Blodget when both worked at Merrill Lynch & Co. Merrill Lynch declined to comment.

Many more inquiries are in the pipeline. *BusinessWeek* has learned that the NASD received documents from New York State Attorney General Eliot Spitzer involving Morgan Stanley—indicating it may take aim at the firm's top Internet analyst, Mary Meeker. Morgan Stanley declined to comment. Meanwhile, California's state regulator is still investigating Deutsche Bank, which also declined to comment. "[Regulators] are newly reinvigorated," says Spitzer spokesman Darren Dopp.

Unfortunately, the new vigor may still not placate investors and restore their trust in Wall Street. Even now, only a few heads are likely to roll, token sacrifices for a systemwide meltdown. "For every scalp they get, there's a hundred more that deserve it," says securities attorney Mark F. Raymond, who represents investors.

Complacent Wall Street chiefs, bulge bankers, meek compliance officers, and even regulators all sat on their hands while brokerages shamelessly hyped stocks. "To the extent that regulators were aware that this was a speculative bubble, you could blame them just as much as everybody else," says Roberta S. Karmel, a former



mer commissioner at the Securities & Exchange Commission, now a professor at Brooklyn Law School.

Nailing people at the top of the food chain for their failure to supervise underlings will be tricky. Legally, senior executives only need to have a reasonable belief that their firms have an adequate system in place to detect intentionally misleading stock research. "[The law] doesn't require the CEO to be spot checking the e-mails of several hundred security analysts," says John C. Coffee Jr., professor of securities law at Columbia University.

Regulators need hard evidence that higher-ups knew that some analysts acted as shills for investment bankers. Spitzer came closest in a

September lawsuit against telecom executives which said that Citigroup's director of global equity research, John Hoffman, had warned Salomon Smith Barney's then-CEO, Michael A. Carpenter, in a 2001 memo that he had a "legitimate concern" over "the objectivity of [Citigroup's] analysts." It also mentioned a later meeting at which Hoffman supposedly told senior execs that the firm's stock recommendations were "ridiculous on face." But Spitzer did not press charges against any individuals. Citigroup declined to comment.

Regulators face a similar dilemma in probing the bankers who bullied analysts into writing favorable reports. Bankers

clearly exerted influence over analysts' pay packages across Wall Street. At the time, there were no rules banning the practice. However, regulators are still looking at Credit Suisse First Boston's star tech banker, Frank Quattrone, who had analysts reporting directly to him. A spokesman for Massachusetts Secretary of the Commonwealth William F. Galvin says it's "an open issue" as to whether the state brings a case against Quattrone. CSFB declined to comment.

It may be hard to charge the heads of Wall Street firms with failure to supervise their employees. But it's not impossible. Prosecutors did so successfully when Drexel

Burnham Lambert CEO Frederick H. Joseph was barred from running a brokerage after he failed to rein in junk-bond czar Michael Milken. Unless regulators can discipline Wall Street's leaders, the public will rightly remain skeptical that anything much has changed.

*With Mike McNamee
in Washington*

WHERE SHOULD THE BUCK STOP?

Regulators now want to hold analysts' bosses accountable for tainted stock research, but the investigations need to expand

WALL STREET CEOS They set the tone and ethical rules of their firms. Many turned a blind eye to conflicts that damaged investors' interests.

INVESTMENT BANKERS As breadwinners for firms, they used their clout—and the fees they brought in—to push the interests of corporate clients.

REGULATORS They sat on their hands as the volume of tainted research soared and questionable practices became more common during the stock boom.

LITIGATION

TORT REFORM: A LITTLE HERE, A LITTLE THERE...

Business lobbyists are pursuing smaller changes—that add up

Jefferson County, Miss., is home to fewer than 10,000 people. But because of the enormous judgments local juries routinely levy against big companies, it's familiar territory to plaintiff's lawyers. From 1995 to 2000, more than 21,000 people filed suit in the small county courthouse.

In December, the American Tort Reform Assn., a lobbying group supported by businesses and defense attorneys, declared Jefferson County to be one of 10 "judicial hellholes." In highlighting allegedly horrific abuses of the county legal system, the public relations ploy employed a political tactic long used by trial lawyers: Win the hearts of the public, and you'll win the hearts of juries.

The campaign garnered so much global publicity—and positive press for corporate "victims" of legal abuse—that business lobbyists say they'll do it again in the coming weeks. Chalk up a small but sweet victory for Corporate America's war against plaintiff's lawyers. Frustrated in their efforts to secure broad legal protection from Congress, companies are seeking new arenas. Rather than aim for major reconstruction of the civil justice system, such as abolishing punitive damages, they're focusing on smaller-scale, more winnable confrontations (table). "For too many years,

the [corporations] working legal reform defined it as getting legislation passed," says Steven Hantler, a lawyer at DaimlerChrysler Corp. "We realized that we had to compete at all levels with the trial bar."

In statehouses, for instance, business lobbyists are pushing for laws mandating compulsory jury service, thereby making it tougher for middle- and upper-income professionals, who might be more sympathetic to companies, to dodge civic duty. Borrowing a page from plaintiff's lawyers, companies are also spending

money on local judicial races. In Wilmington, meanwhile, defense attorneys lobby a little-known agency that writes the rules of civil procedure to make it more difficult for plaintiffs to obtain embarrassing internal e-mails.

Why the new strategy? If there ever was a time for companies to win tort legislation they have long sought, such as limits on class actions, caps on damages, and rules requiring the losing party to pay the victor's legal expenses,

this would be it. President George W. Bush disavowed trial lawyers, and he commands a GOP majority in Congress.

But given the recent wave of accounting scandals, politicians can't be seen siding with business over injured consumers. And the trial bar's grip on the Democratic Party makes it nearly impossible to win the 60 votes needed to pass a law in the Senate, where the GOP has a one-seat majority. So Republicans—such as Senate Banking Committee Chairman Richard C. Shelby of Alabama—oppose federal tort-reform legislation on grounds that it fringes on states' rights.

So, with their fingers to the wind, business strategists are beginning to pursue lower-visibility measures. Recently they slipped a provision shielding Lilly & Co. from liability for a vaccine ingredient into the homeland security legislation. Outraged lawmakers have vowed to strip Lilly of its protection, but other companies are likely to copy the tactic of tacking stealth measures on to must-pass legislation. This year business hopes to win congressional support for reforms such as a cap on jury awards in medical malpractice suits and a rule that would allow class actions to be tried in federal courts, where



BACKDOOR MANEUVERS

Giving up on broad new laws to rein in plaintiff's lawyers, companies are trying new strategies to combat their legal adversaries

Data: BusinessWeek

SYMPATHETIC JUDGES

Trial lawyers have long tipped the scales in their favor by contributing to judicial races in states such as Texas and Alabama. Now companies are giving to business-friendly judges.

STEALTH LEGISLATION

Instead of gunning for sweeping reforms, Corporate America is slipping targeted measures into larger bills. One controversial example: the Eli Lilly rider on the Homeland Security Act.

NEW PROCEDURES

Companies are getting killed by incriminating e-mail. So they are lobbying the group that writes the Federal Rules of Civil Procedure to restrict access to electronic evidence.

FRIENDLY JURIES

Defense attorneys gripe that it is too easy for the well-heeled, who are most likely to be sympathetic jurors, to get out of serving. They're pushing to make jury duty mandatory.

TOYOTA

THE 2003 CAMRY Eye-catching style on the outside. Surprising luxury inside. Just call it sheet metal magnetism.

GET THE FEELING

 **TOYOTA**

tend to be more business-friendly.

The strategy shift, which has been building slowly in recent years, is starting to show results. In the November elections, business racked up judicial wins in Mississippi, where Jesse Dickinson handily defeated Supreme Court Justice Chuck McRae, a favorite among trial lawyers. Dickinson was one of three judges business swept into office in the Magnolia State. Victory didn't come cheap: The three pro-business candidates tallied \$1.66 million in campaign donations, outraising four candidates favored by trial lawyers, who pulled in a combined \$958,000.

Those figures don't include money spent by national trade groups such as the U.S. Chamber of Commerce, which spent an estimated \$10 million to elect judges in Alabama, Illinois, Ohio, and elsewhere. The wins are key: In the mid-1990s, business persuaded lawmakers in several states to limit punitive damage awards, only to have the courts nullify the laws as unconstitutional. Sympathetic jurists would be less likely to reverse legal reforms the states passed.

State legislatures are the next big focus. Business this year will blitz statehouses with a record number of legal-reform bills, including measures that would limit damages in class action cases and make it tougher to dodge jury duty. Business is emboldened after a big win in Mississippi, where Democratic Governor Ronnie Musgrove signed damage caps into law in December after a special session of the legislature.

Back in Washington, DuPont, BASF, and other companies are trying to make it tougher for trial lawyers to get their hands on sensitive e-mail and other digital information. They're asking the Administrative Office of the U.S. Courts to write new bench rules that would require lawyers to provide cost-benefit analyses for obtaining electronic documents. They also want judges to shift the cost of digital discovery onto plaintiffs. Barry Bauman, executive director of Lawyers for Civil Justice, a business-funded advocacy group, says trial lawyers shouldn't be allowed to embark on costly fishing expeditions. Indeed, teasing out old e-mail and memos from discarded drives or tapes can be expensive—in a recent case involving Murphy Oil USA Inc., the cost of reviewing 93 computer backup tapes was estimated at \$6.2 million.

Rewriting rules on digital evidence will take years, but corporate lawyers believe the debate is raising the visibility of the issue among judges. And that, in turn, is causing them to give less leeway to plaintiffs' attorneys. It's a marginal victory, to be sure—but that's the only type that seems to be available these days.

By Lorraine Woellert in Washington

The Corporation

STRATEGIES

GE: LITTLE ENGINES THAT COULD

The company's big bet on regional jets is paying off

Representatives from four of the world's top jet-engine makers did their best last October as they made their final presentations to Chinese officials at Shanghai's Portman Ritz-Carlton Hotel. The leaders of the most populous nation had said that despite past failures, China would once again try to build a fleet of 500 regional jets in time for the 2008 Beijing Olympics. And each plane, of course, would need engines.

So executives from Rolls-Royce, Pratt & Whitney, Snecma—a French-government-owned engine shop—and General Electric waited nervously to see who would win the prize. Months of preparation had led up to that day. "I don't think there was a night that I didn't go to bed with heartburn," says David L. Joyce, GE's vice-president for commercial-engine operations. Now, Joyce can throw away the Tums: GE won the \$3 billion contract.

Chalk up another victory for GE Aircraft Engines (GEAE), based in Evendale, Ohio, near Cincinnati. GE already controls 64% of the world market for commercial-jet engines, largely on the



GE PLANT Big engines like these for 747s could take a backseat to those for small jets

strength of its popular CFM56, which is used on narrow-body planes such as the Airbus A320 or Boeing Co.'s 737, and the GE-90, which carries Boeing's 777 aloft. Yet GEAE executives believe the explosive growth in regional jets, those with up to 100 seats and a range of up to 1,500 miles—will be the division's future.

Few rivals cared about the small-jet market in the early '90s—so now GE has a huge chunk of the growing segment

Why? Mainly because air carriers appreciate their lower operating costs. Bankrupt airlines such as US Airways Inc. and United Airlines Inc. will probably end up replacing many big jets with the smaller, cheaper ones. And on short hops, consumers prefer them to bigger planes. The number of regional jets in service has swelled to 1,300 in 1995 from 85 in 1993. And with airlines mothballing big planes in the desert, that number is expected to grow.

The story behind the successful gammon on regional-jet engines illustrates some of the big strengths of a diverse company such as GE—and one of its key strategies. With both short-cycle businesses, which pay off quickly, and long-cycle ones, whose payoffs are years in the making, GE can invest heavily in new technologies it believes in, even when the payoff is not imminent. In the past, GE could afford to invest in new engine technologies because of the strong performance by some of its other-cycle businesses—primarily NBC and GE Plastics. “When we had tough times, we didn’t cut back on R&D or on product support,” says Brian H. Rowe, GE’s former CEO of GEAE.

True, the current airline slump has shaved total revenues from GE’s jet-engine unit to \$10.6 billion in 2002, a drop of 10% from the previous year—although operating profits remained constant at \$1.2 billion, thanks in part to \$500 million in cost-cutting. And GE regional-jet engines totaled only \$660 million in sales in 2002, along with \$200 million in service fees—only about 10% of GEAE’s revenues. That represents deliveries of 584 regional-jet engines this year.

But that’s just the start. GE already has orders and options over the next decade for nearly 5,600 CF34 engines—engines that power 50- and 90-seat jets—including any orders from the \$3 billion China contract. David L. Calhoun, GE’s current chief executive of GEAE, believes that an additional 5,000 regional jets could be sold over the next decade. With just one competitor in the 50-seat market, for instance—Boeing’s Rolls-Royce PLC—GEAE has a virtual lock on one of the few growing segments in commercial aviation. This year, in fact, GE will ship 60% of all regional-jet engines. Says GE Group Corp. aerospace analyst Richard L. Abou-Elmagd: “That market is not

only growing but could be crucial to the survival and recovery of the airline industry.”

GE’s stock price is down 40% in the past 12 months, to about \$25. So GE Chairman and CEO Jeffrey R. Immelt clearly appreciates that the payoff for GE’s long-ago investment is beginning to kick in. “In 20 years,” he says, “we have gone from being a follower to being an extraordinarily strong No. 1.” But perhaps the best is still to come. Because GEAE will sell spare parts and service contracts for its engines, Immelt believes that the rapid growth of the regional-jet market creates “an aggressive services play that will contribute significant income for decades.” Service revenue just for regional-jet engines is expected to hit \$1.4 billion by 2010 and climb much higher after that.

Few in the industry paid attention to the regional-jet market in the early 1990s. Bombardier Inc. conceived and put on the market its 50-passenger regional jet, powered exclusively by GE’s CF34—originally intended to feed airline hubs from small airports. With GE rolling the dice by investing more than \$1 billion in new engine technology, it took early adopters Lufthansa and Comair, a large regional carrier now owned by Delta Air Lines, to get the market going. Then, in the late ’90s, Bombardier and Brazilian rival Embraer expanded to 70- and 90-seat jetliners. Two lessons became clear: Passengers preferred small jets to turboprops, and operating costs for regional jets were lower.

That has become especially true with the decline in air travel following the September 11 terrorist attacks. A recent study by Raymond James & Associates Inc. found that a 50-seat re-

gional jet carrying 43 passengers could generate a 16% profit margin, compared with a 27% loss for a 120-seat 737 carrying 76 passengers. “Full-service carriers will continue to shrink, and [regional jets] and low-fare products will continue to grow,” says Fred Buttrell, CEO of Delta Connection Inc., the largest regional-jet operator.

GE’s plans for higher regional-jet-engine profits could unravel, however. Its business model is based on the assumption that air travel will overcome the downturn and start growing again at 5% annually. Yet analysts expect the major airlines to lose \$4 billion in 2003, with no recovery until 2005 or 2006. A longer slump or a Chapter 7 bankruptcy filing by a major carrier would continue to depress results.

Another worry: GE could lose more of its lucrative service business in the regional-jet market to cheaper competitors. Delta Connection, for one, already buys engine maintenance from among the handful of GE’s small, privately held rivals. GE cannot afford to ignore that: Its most lucrative service contracts are in markets such as regional jets, where it faces the least competition. It is a hallmark of GE to profit not only from the sale of goods but also from the sale of services. So Calhoun says he will aggressively fight to keep GEAE’s 95% market share for regional-jet-engine maintenance intact.

China is another question mark, say analysts. The Chinese have failed three times in the past decade to develop a 100-seat regional jet. The country lacked the industrial infrastructure to build top-quality modern jets, and it was difficult to make a deal without being in the World Trade Organization.

But this time, the bidding was straightforward, without the complicated negotiations that hobbled prior attempts. “China was a huge win for us,” says Immelt, “and illustrative of our overall strategy there.” He adds that the win sets a successful pattern for all of GE’s businesses in China. GEAE is slated to be a big part of GE’s presence in China in the future. But the nicest part for the engine maker: If the Chinese deal should fall apart, the division should be able to do fine without it.

By Stanley Holmes
in Evendale, Ohio

UP, UP, AND AWAY



The

“

STOP LIVING DANGEROUSLY

”

storage software company.

86% of the FORTUNE 500® rely on VERITAS Software for data backup and recovery.

veritas.com


VERITAS™

Copyright © 2003 VERITAS Software Corporation. All rights reserved. VERITAS, the VERITAS Logo and all other VERITAS product names and slogans are trademarks or registered trademarks of VERITAS Software Corporation. VERITAS and the Veritas Logo are U.S. Pat. & Tm. Off. All other trademarks are the property of their respective owners.

Stock Options

The Right Way to Go

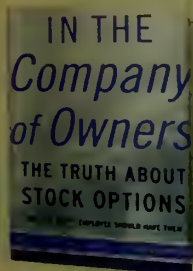
Despite widespread CEO abuse,
option grants can still be
a powerful motivational tool
for the entire workforce

The debate about stock options is about to flare up again. In February, the Financial Accounting Standards Board will begin hearing comments on a proposal that would require companies to expense options. The following month, London's International Accounting Standards Board will decide whether to require European companies to do the same. This is a prelude to pitched battles that are certain to erupt when the annual-meeting season kicks off in the spring. At more than 130 major companies, investors furious about widespread option abuse plan proxy fights, aiming to curb runaway executive option packages. But there's nothing wrong with stock options per se, says a new book by Rutgers University professors Joseph R. Blasi and Douglas L. Kruse and BusinessWeek Senior Writer Aaron Bernstein. True, top execs have used options to grab extraordinary ownership stakes for themselves, as In the Company of Owners documents with new data. But the authors argue that if companies turned most or all workers into corporate partners with modest option grants, investors and employees alike would gain. The model the authors point to, which they call

"partnership capitalism," has its roots in Silicon Valley, where high-tech companies began granting options to employees in the 1950s. There, they say, reports of a wipe-out have been exaggerated. Sure, many workers lost vast paper

wealth as high-tech companies stumbled. But what is overlooked is that employees enjoyed huge—and to some degree undeserved—windfalls, and still get new options that motivate commitment and innovation. The authors show how employees today hold an astonishing 19% ownership stake in what they call the High Tech 100, the 100 largest public companies that derive more than half of their sales from the Internet. That's more than the stakes held by these companies' bosses—an unprecedented level of employee ownership.

What's more, the book argues, two decades of evidence demonstrates that widespread employee ownership lifts productivity, profits, and shareholder returns. Here's an excerpt from *In the Company of Owners: The Truth About Stock Options (And Why Every Employee Should Have Them)*.



PARTNERSHIP CAPITALISM

Since the mid-1980s, most of Corporate America has used stock options to extend ownership to the highest-level executives. At the same time, many companies have experimented with other ways to turn a broader range of employees into owners, including employee stock-ownership plans (ESOPs), 401(k)s, and stock-purchase plans. We found, however, that high-technology companies have granted an exceptional level of ownership to their employees.

To determine just how broadly the high-tech industry has

adapted from *In the Company of Owners: The Truth About Stock Options (And Why Every Employee Should Have Them)* by Joseph Blasi, Douglas Kruse, and Aaron Bernstein. Copyright © 2003. Reprinted by arrangement with Basic Books, a member of the Perseus Books Group. All rights reserved.

Book Excerpt

embraced partnership capitalism, we drew up the High Tech 100, which consists of the 100 largest public companies that derive more than half of their sales from the Internet. We measured size by each company's market value as of October, 2000, the date we began the project—in that way including only the viable, post-2000-crash Internet companies.

Our High Tech 100 index allowed us to measure employee ownership, including the future shares to which employees had a claim through stock options, plus the small amount of stock they owned directly. There's no widely accepted term for the combination of stock and options, so we call it "employee equity."

We found that these tech companies had embraced partnership capitalism to an extraordinary degree. On average, employee equity in the High Tech 100—which includes companies such as Amazon.com, Cisco, and eBay—totaled 19% as of Dec. 31, 2000 (charts). This was greater than the 14% held collectively by the top five officers in each company. As far as we can determine, never before has an industry handed over so much potential ownership to a broad cross-section of employees. "Stock options send a message to all employees that they have an impact on the growth of the company," says Frank Marshall, vice-chairman of Covad Communications Group, a High Tech 100 company that provides high-speed Net access. "If you have this caste system where there are hourly workers who don't participate in the equity upside, then you have management that has private dining rooms and stuff like that. It sets up an attitude that some employees are not important."

Creating the index led us to other findings as well. One of the most startling was the inaccuracy of the perception that high-tech employees had been left with nothing when the NASDAQ collapsed. True, High Tech 100 workers—who numbered 177,000 in 2001—lost stupendous paper wealth. We calculated that at the peak of the market, their options would have been worth \$175 billion, an average of \$1 million per employee. As of July, 2002, they had lost more than \$171 billion of that—at least on paper, since op-

tions don't require employees to shell out their own money. Yet even so, their remaining options were worth \$25,000 a worker.

What's more, we found that High Tech 100 workers home a total of some \$78 billion in gains from all the options they have cashed in since their companies went public between 1994 and 1999, they collectively exercised options that gave them \$53 billion or \$300,000 apiece. This is not paper wealth but actual cash profits. Many investors may be surprised, and



• Product when opt

haps angered, to hear employees made billions more even as the market dropped. Because they started at their companies early on, they still held options granted at initial public offering and pre-IPO prices. Even in July, 2002, the stocks of 43 of these companies remained above the levels. As a result, High Tech 100 employees collected \$25 billion in 2000 and 2001—an average of some \$125,000 each.

Employees deserved their part of all these gains. A significant amount of the \$53 billion came because the stock market ballooned to unrealistic heights. Rank-and-file workers who cashed in options on the way up got a huge windfall, top of what they would have earned had high-tech stocks climbed at a more reasonable rate. This came at the expense of dot-com investors.

For the most part, this option wealth enriched the high-tech workers over and above their regular salaries, which averaged a respectable \$70,000 a year in 2000. Since the \$78 billion in gains works out to a rough average of \$425,000 a worker, partnership capitalism paid these workers an additional six times their annual pay on average.

The High Tech 100's large employee-equity stake is tangible evidence of the industry's commitment to partnership capitalism. Most of these companies were founded by entrepreneurs who dreamed up the business idea and bore the

Bosses vs. Workers: The Big Picture

Data: Authors' analysis of Securities & Exchange Commission filings and of Standard & Poor's Execucomp data

HIGH-TECH COMPANIES GRANT OPTIONS WIDELY...

(AVERAGE OWNERSHIP STAKE IN THE HIGH TECH 100* AS OF DEC. 31, 2000)

	STOCK	OPTIONS	TOTAL EQUITY
TOP FIVE EXECUTIVES	10%	4%	14%
EMPLOYEES	2	17	19

Ownership figures represent the share of a company's shares each group would have owned if all issued options had been exercised.

*The 100 largest high-tech companies that derive more than half their revenues from the Internet

...SO THEIR EMPLOYEES BENEFITED FROM THE BOOM

(HIGH TECH 100 EMPLOYEES)

	BILLIONS	PER EMPLOYEE (IN TH)
CUMULATIVE OPTION INCOME*	\$78	OR \$440,000
VALUE OF REMAINING OPTIONS**	12	OR \$6,700

*Cumulative total income from options exercised between 1994 and 2001

**Average market value of options minus exercise price as of July 2002

risk of putting it into practice. Some put in their own life savings. They got outsize rewards for doing so, which is the traditional way U.S. capitalism is supposed to work. The break from tradition came when high-tech founders offered options to promise their employees more of the company's future wealth than they reserved for themselves. These entrepreneurs embraced substantial dilution of their ownership because they believed in the incentive effect of stock option capitalism. "When you start a company, you own 100% of the pie, which consists of zero at that point," says Naveen Jain, the founder and CEO of InfoSpace Inc., a High Tech 100 software company. "If you can somehow have 10 other people believe it is their pie, and they want to make their own section of it bigger, that means you are going to have an even bigger pie. So [granting options] is a very selfish

shareholder returns can rise to all and not just an elite few

ing to do. If my employees work hard for themselves, they are really working hard for me."

THE LUCKY FEW

The high-tech approach contrasts sharply with that taken by most of Corporate America. Employee motivation is a concern shared by most CEOs, but reality belies the rhetoric. Less than 2% involve more than half of their employees in decision-making and back it up with an inclusive approach to recruitment, training, and incentives. They do little better when it comes to sharing ownership with employees. Many companies have an ESOP, profit sharing, or incentive plan, but few involve meaningful financial rewards or are ingrained into a culture of employee participation.

By contrast, executives lift their own pay to Olympian heights. Ironically, they call on the same justification for high-tech companies use: that ownership spurs them to better performance. Roughly 30% of all options issued by Corporate America are in the hands of the top five executives at each company. Most of the remaining 70% is spread narrowly among other executives and managers, who typically make less than 5% of traditional companies. We estimate that of the country's 10,000 public companies, only 6% offer most of their workers options on a regular basis. Because many of the companies are small, only 2% of the U.S. workforce gets options every year. This top-heavy approach undermines Corporate America's stated goal of motivating their employees. Corporate leaders want the higher productivity gains an employee-ownership mentality can bring. But they want it on the cheap, without paying for it with the dilution that accompanies a true sharing of property and risk.

At the same time, many CEOs act as if they and a small circle of executives and managers are the only ones who might be motivated by corporate ownership. Yet there's plen-

ty of evidence that companies perform better when regular employees are owners. Employee ownership lifts a company's productivity by four percentage points and total shareholder returns by two percentage points, according to our analysis of more than 70 economic studies done on the subject in the past two decades. Conversely, there's little proof companies perform better as a result of the gargantuan ownership that executives have claimed for themselves.

To flesh out the stark difference between employee ownership in mainstream Corporate America and high tech, we created an index of traditional companies comparable to the High Tech 100. We call it the Corporate America 100, which we constructed as a representative group of large corporations listed on the New York Stock Exchange. We found that the average large company has granted 8% of its potential ownership to its top five executives (although the share is often smaller in the largest companies). Average employees own a mere 2%, a far cry from the 19% held by High Tech 100 workers. In addition, much of this 2% rep-

resents not options, which cost workers nothing, but stock that employees purchase themselves through 401(k)s, ESOPs, and share purchase plans. Corporate America doesn't grant options worth even 1% of its shares to regular workers.

This is employee ownership for the top. Almost everyone else, including most middle managers and professionals, is left out. You can see how much top executives have taken by looking at how their options paid off over the past decade. We calculated that the top five executives at the largest 1,700 U.S. companies collected total gains of \$2.4 billion from options they cashed in during 1992. By 2000, they were making \$18 billion, an increase of 750%.

These compensation figures are matched by the paper wealth executives have accumulated from the stockpile of options they own but haven't yet cashed in. If all these options had been exercised at once, they would have brought the top five officers a total net gain of \$93 billion at the end of 1999, after they had paid the market value for each share. This is a more than tenfold increase from 1992, when the top five held options with a paper value of \$7 billion. Contrast that with the same companies' total market value, which climbed by only 350% over this period. Of course, the market crash that followed has made the discrepancies even more glaring.

[The authors updated the wealth data after their book went to press and found that the top five's options were still worth \$60 billion as of Dec. 31, 2001—more than an eightfold increase since 1992, despite the market slump.]

It turns out that investors surrendered tremendous ownership to executives with no clear evidence that all of these stock options were judiciously handed out. They've also lost out on the gains they could have reaped if their companies had shared the wealth with average employees and changed their corporate cultures accordingly.

Traditional companies have taken all the lessons about employee participation and ownership that they learned in the past two decades and applied them only to this top layer. There is a better way—to share options more broadly. ■

OUT ELSEWHERE, OWNERSHIP IS CONCENTRATED AT THE TOP...

(AVERAGE OWNERSHIP STAKE IN THE CORPORATE AMERICA 100* AS OF DEC. 31, 2000)

	STOCK	OPTIONS	TOTAL EQUITY
TOP FIVE EXECUTIVES	5%	3%	8%
ALL EMPLOYEES	2	**	2

*Sample of large New York Stock Exchange companies
 **Percent of a company's shares each group owned if all issued options had been exercised.

...GIVING EXECUTIVES HUGE GAINS

(TOP FIVE EXECUTIVES AT THE 1,700 LARGEST U.S. COMPANIES)

	BILLIONS	PER EXECUTIVE (IN MILLIONS)
CUMULATIVE OPTION INCOME*	\$67	OR \$8
VALUE OF REMAINING OPTIONS**	60	OR 7

*Cumulative total income from options exercised between 1992 and 2001
 **Average market value of stock holdings and of options minus exercise price, as of Dec. 31, 2001

BusinessWeek online

To see more from the book, go to the Jan. 20 issue online at www.businessweek.com

SMART DEVICES

BILL HAS DESIGNS ON YOUR WRIST

Microsoft's Spot: Clever technology but goofy gizmos

It was 2 in the morning a year ago, and Microsoft Corp. Chairman William H. Gates III was still banging out e-mails. That's nothing strange, but instead of operating systems or game consoles, he was focusing on technology of a smaller and humbler order: refrigerator magnets, watches, and key chains. Gates was prodding his developers to turn scads of such gadgets into tiny information devices. He shot them such ideas as how users

could get horoscopes and lottery numbers transmitted to their watches.

Not all of Gates's ideas made the cut. But on Jan. 8, he unveiled prototypes of a host of new smart devices at the Consumer Electronics Show in Las Vegas. Microsoft's idea is to

equip all sorts of gear to receive gobs of information via FM radio waves. The first gizmo: a new take on a Dick Tracy-like watch that can be set to track such things as stocks and traffic snarls. Other items in the lab are refrigerator magnets that display up-to-the-minute sports scores and alarm clocks that ring extra early when commute traffic is a mess. Some of the ideas sound downright silly, but Gates insists the possibilities of the technology are "just mind-blowing."

The technology that makes this possible is Spot (Smart Personal Objects Technology). The breakthrough uses a chip developed by Microsoft and National Semiconductor Co. The plan is to create a

host of information services and transmit them to a growing galaxy of smart devices. "Our goal is to get these thin inexpensive that you can put them where," says Richard F. Rashid, vice-president for research at Micro

But before Spot runs, Microsoft stiff challenges. The toughest: create services so appealing and convenient that people will pay for them. For watchmakers and tech companies trumpeted computer watches, only wait for consumers to buy them. They have another chance in September, when watchmakers Fossil, Citizen, and Suunto, a Finnish sports-watch company, will introduce Spot watches for \$120 to \$300. While Microsoft hasn't yet priced the service, Gates expects it will be "on the order of \$99 a year"—a price that is steep, says Michael Gartenberg, research director of Jupiter Research.

For Microsoft, the financial risk is minimal. The software giant has spent mere \$50 million on Spot—pocket change for a company with \$40 billion in cash. For Microsoft to break even, 500,000 consumers must buy the service. In truth, Spot's bottom line matters less than the technology and lessons Microsoft draws from the venture.

This is Microsoft's step into so-called ubiquitous computing, a holy grail of the tech intelligentsia. For years, companies have toiled to develop technology to pack computing smarts into all sorts of devices. The ideas, often utopian, picture legions of machines communicating with each other, and streams of information following customers nearly every step of their lives. Most have ended in short. One is Jini software, developed by Sun Microsystems Inc. to make it easier for consumer devices—fridges, refrigerators to cars—to connect to the Web so their operations could be monitored. But four years after its launch, Jini is still struggling to catch on.

Microsoft's own track record launching new consumer businesses is, well, spotty. Microsoft has long labored to get interactive television software out of its hands. Digital stereo speakers and PC-connected phones each lasted less than a year. "S

GATES WITH A FOSSIL WATCH

SPOT ON?

Microsoft's Spot (Smart Personal Objects Technology) lets tiny gadgets receive gobs of data, such as stock prices and sports scores. Microsoft is starting with a watch but has other ideas.



WRISTWATCH

Push a few buttons for data about the commute. Fossil, Citizen, and Finnish sports-watch designer Suunto will have watches this

summer, priced from \$120 to \$300.



KEY-CHAIN FOB

Microsoft figures that women won't be comfortable with a large-faced digital

wristwatch. So it has come up with a key-chain fob to deliver the info.



ALARM CLOCK

When the alarm goes off, the clock will

automatically change to the local time zone. It could also synchronize their calendars.

all the signs of a Microsoft launch of "y, fire, aim," says Gartenberg. The trouble is that most of Microsoft's potential customers already lug around ubiquitous information devices: phones, pagers, and handheld computers. New mobile phone services, for example, already provide lottery numbers, traffic reports, and storm alerts. Sportswatch "are going to be nothing more than a novelty item unless they offer something you can't get from the other devices," says Todd D. Slater, a financial analyst with Lazard Freres & Co. Slater is convinced he has something unique to offer. With Spot, users can get up-to-the-minute information without having to dial their phone or find a radio connection to use their handheld. The technology's well suited, he says, for one-way instant messages.

Microsoft launched work on Spot in 1999. First, the company needed to come up with a chip to process data to receive radio transmissions. It had to be tiny and cheap. Microsoft gave design ideas to chipmaker National Semiconductor, which takes custom orders. National ginned up the new chip for about \$10 each.

To transmit the data to the devices, Microsoft researchers looked to a little-used portion of the FM radio band. The information will be sent by satellite or Internet to radio stations, which in turn will broadcast the data to the FM receivers in each gadget. Microsoft inked deals with six broadcasting companies for coverage in every major city in North America. It plans to offer Spot in Europe and Asia but has yet to sign any broadcast partners there.

For all of Microsoft's clever technology, though, the success of the Spot sportswatch and other devices will come down to whether Gates & Co. can persuade consumers to pay for data delivered to everyday devices. Otherwise, it may not amount to much more than a fad on the technology horizon.

By Jay Greene in Seattle, with Jim Stetter in San Mateo

BusinessWeek online

For a Q&A with Gates, visit www.businessweek.com

REFRIGERATOR MAGNET

Sports teams could sell magnets with team logos that would automatically update game scores and team news. Conceivably, fans would pay to transmit the data for a little for the magnets.



NEC'S TOSAKA:
"WE CHANGE
OR GO OUT OF
BUSINESS"

SEMICONDUCTORS

JAPAN'S SILICON STAMPEDE

Can mergers and stepped-up research buoy its chip industry?

The past decade has been tough on the Japanese semiconductor industry. South Korean rivals dislodged Japan's chipmakers from their dominant position in memory chips. U.S. companies are expanding their lead in high-margin innovative designs. And nimble Europeans have been grabbing business on Japan's home turf from stalwart customers such as Pioneer Corp. This triple assault has turned chip giants like NEC, Hitachi, and Mitsubishi Electric into bit players. In 1988, Japan accounted for 51% of world chip sales; by 2001 its share had withered to just 28%, according to the Semiconductor Industry Assn.

Now, Japan's chip producers hope to reclaim some lost ground, aware that if they don't do it now, they may pass the point of no return. Leading semiconductor makers are reorganizing, merging

or spinning off pieces of their once-mighty empires. Backed by the government, they're pooling research in joint ventures aimed at developing sophisticated chips for upscale mobile-phone, consumer-electronics, and auto markets. And while Japan isn't about to threaten the likes of Intel Corp., "we're fixing the problems," says Takeshi Nakagawa, president of Toshiba Semiconductor Co., and will soon be "in fighting form."

High hopes are riding on Toshiba, and on NEC Corp., a titan in chip design that somewhere along the way forgot about making profits. Last November, NEC spun off its chip unit into a stand-alone subsidiary called NEC Electronics. The company hopes this will allow managers of the \$6 billion division to focus on sales and the bottom line. Even before the unit's launch, NEC Electronics President Kaoru Tosa-

ka shut a factory in Britain and drafted a new strategy that weeds out unprofitable products. "The choice is simple," says the straight-talking Tosaka. "We change or go out of business."

Hitachi Ltd. and Mitsubishi Electric Corp. agree that major changes are needed. In April, the two will merge their nonmemory chip operations into a new company, Renesas Technology Corp., focused on devices for cars and cell phones. Renesas will also be a top player in microcontrollers—the "brain" chips that go into equipment ranging from microwave ovens to power plants—and will inherit Hitachi's cutting-edge chip factory. Renesas "has the technology and capacity" to win, says Yoshiharu Izumi, a senior analyst with J.P. Morgan Chase & Co. in Tokyo.

The biggest challenge will be installing good managers, adds Izumi. Consider the experience of Elpida Memory, formed three years ago when NEC and Hitachi merged their money-losing operations in memory chips. Management miscalculated demand for the next generation of PC memory chips—and racked up some \$3 billion in losses.

A New Chip Landscape

COMPANY / COMMENTS	2001 CHIP REVENUES (BILLIONS)	OUTLOOK
RENESAS TECHNOLOGY A Hitachi-Mitsubishi joint venture that plans to focus on system chips for phones and other devices when it launches in April.	\$7*	Will get good technology and a brand-new fab from Hitachi. But will inherit old plants and duplicate product lines from parent companies.
NEC ELECTRONICS Spun off from giant NEC in November. Focusing on custom chips for electronics, cell phones, and cars.	6	Inherits ace engineers, great technology, and big-ticket clients such as Toyota, but will have to compete with Samsung and other powerful rivals.
ELPIDA MEMORY Japan's only DRAM maker, combining operations of Hitachi, NEC, and soon Mitsubishi.	1.3**	Cutting costs and opening hyperefficient new plant in January, but needs to raise \$500 million to boost plant's production.

*Combined chip sales **Includes Mitsubishi

Data: Company reports, *BusinessWeek*

But Elpida, too, hopes to rise to the occasion. It has a new CEO, Yukio Sakamoto, and a new turnaround strategy. A 27-year veteran of Texas Instruments Inc., Sakamoto aims to win back business from Japanese gadget makers that have switched to Samsung Electronics Co. and Micron Technology Inc.

Shanghai's Semiconductor Manufacturing International Corp.

To help the chipmakers get back on their feet, the Japanese government is reviving chip strategies from the past. Last spring, Tokyo earmarked \$250 million for a test facility where researchers from 11 companies will make chips.

circuit lines only 90 nanometers wide. In the summer, government-industry consortium opened two cleanroom laboratories, targeting chips with even thinner

nm and 50-nm circuit lines.

The academic community is rolling up its sleeves as Tohoku University scientists are cooperating with a dozen semiconductor companies to develop the technology that will shrink both size and cost by stitching circuits

SAMSUNG:
A niche
itch

layer cakes. It's too early to say the future of Japanese chipmakers is bright, but at least they've seen the light.

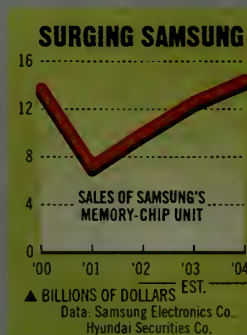
By Irene M. K
in Te

THE SECRETS OF SAMSUNG'S SUCCESS

Let others worry about tough times in semiconductors. Hwang Chang Gyu, president of Samsung Electronics Co.'s memory-chip unit, is pumping \$2 billion into a new factory to crank out memory for everything from PCs to cell phones to game consoles. "We are different," says Hwang. "We are living a nomadic life. We move on if other companies catch up."

So far, the nomadic life has paid off. Samsung figures memory-chip sales hit \$7.1 billion last year—more than Micron Technology, Hynix Semiconductor, and Infineon Technologies combined. And while those players were all in the red, Samsung's memory-chip business produced as much as \$2 billion in profits, estimates Hyundai Securities Co.

Samsung's secret? While others have tried to sell horsepower for the mass-PC market, Hwang has focused on niches that command higher prices and fatter mar-



gins. Some 70% of Samsung's memory revenues come from specialty products: graphics chips for game consoles, high-density memory modules for powerful servers, and flash memory for handheld computers, cell phones, and camcorders—a niche Samsung hopes will blossom into a \$4.2 billion business by 2005. Pretty darn cushy, for a nomad.

By Moon Ihlwan in Seoul

ACCESS OPPORTUNITY **Capital** THE WALL STREET PROJECT



Meeet the leaders of the new economy. The who's who will be in one place at one time – you must be there, too. If you're a CEO, this is for you. If you're an MBA, this is for you. If you're an entrepreneur, this is for you! It's about access. It's about opportunity. It's about building capital. If you're serious about doing business, you can't afford to miss this conference! For information contact RG & Associates at 212-425-7874 ext.101, or 510-628-0345. Visit rgriffin@rgassociates.org or register online at www.rainbowpush.org.

E Q U I T Y F O R A L L
ESTABLISHING THE ECONOMIC AGENDA FOR GROWTH
JANUARY 14 - 17, 2003. NEW YORK CITY

2003 WSP SPONSORS

Diamond: Citigroup, New York Stock Exchange, Coca-Cola **Platinum:** New York Life, Freddie Mac **Gold:** AOL Time Warner, AT&T, DaimlerChrysler Corporation Fund, DiversityInc, Ford Motor Company, General Motors, Goldman Sachs, IBM, Kodak, MetLife, Pharos Capital Group, LLC **Silver:** Boeing, Capital Management Group Securities, Credit Suisse, First Boston, Integrated Systems Analysts, Inc. JPMorgan Chase, Merrill Lynch, PEPSICO, Prudential Financial, Raytheon, Verizon **Bronze:** Applied Information Services, Ariel Capital Management, Holland & Knight, LLC, Lockheed Martin, THE ROMAR GROUP, INC., Romar Studios

The Wall Street Project is an initiative of the Citizenship Education Fund, a non-partisan charitable organization.



NEW FOR
2003

THE TOP 5 RULES OF THE AD GAME

SURE, AN ADVERTISING RECOVERY IS UNDER WAY, but even the copywriting geniuses on Madison Avenue would have trouble pegging it as the "biggest" or the "best." After eking out a 2.6% gain in 2002, ad spending should see a 5% rise this year, to \$249.3 billion, bringing it back to levels seen before the dire 6.5% plunge of 2001, says ad-buying agency Universal McCann. Although TV demand was first to kick in starting last fall, the pickup is now trickling out even to harder hit media such as magazines and the Internet. But the severity of the

With ad spending rising slowly, this won't be a boffo year. Here's how it will play out

downturn, coupled with the remaining uncertainties, has left marketers and their agencies scarred in ways that will temper any exuberance as they get back in the game. Remember all the millennium talk of innovative new ways to reach consumers? With caution now the watchword, many marketers have put those ideas on the back burner. Any groundbreaking ads or new products are vulnerable to instant veto by that most ruthless of arbiters, the focus group. "There's huge research before anything goes anywhere," laments Cheryl Berman, chairman and chief creative officer of ad agency Leo Burnett USA. "A housewife in Ohio can make or break a new product or ad concept. It's cowardly, but people are fearful of taking a risk."

How will this all play out? Here are some rules for the new year.

1 THE TUBE IS STILL KING

It may not be perfect, TV will continue to sell

Here's the central paradox of the cent ad revival: It has been led by fabled demand among advertisers for work TV time, even though the medium's ratings continue to erode. Marketers increasingly question whether their ads even get noticed amid the clutter of commercials. For the first time last year, cable TV drew a larger audience than network TV.

So why the bidding frenzy? Ironically it's partly because the inventory of 30- and 60-second time slots has been tightened by TV's poor ratings. Networks were forced to set aside airtime for "make-goods," free ads owed to advertisers who didn't get the audiences they were promised. Then there is the question of the alternatives to network TV, which are even more fragmented. "In many ways they're being rewarded for their poor results," concedes David Burwell, senior vice-president and chief marketing officer of Pepsi-Cola North America, which plans a big presence on the month's Super Bowl. "But communal events are much rarer these days. There are still only a few ways to reach a lot of people at one shot."

There's another factor, too: Just there was a time when you'd never fired for buying IBM computers, TV is still marketers' default choice. A dire

offer may be a more efficient way of reaching serious sales prospects, but you know a TV ad will be seen by your target. "It seems there ought to be more money invested in customer retention things like that," says branding consultant Michael Mesic, of Strategic Solutions Group Consulting in Evanston, Ill. "But it's a question of mind-set—TV is visible, if nothing else." Bottom line: Network TV is dead. Long live work TV.

THE NET: NO AD BOOM AT HAND

Marketers will build brands online—but not necessarily with ads

It's not quite like that old saw one had to hear about Brazil, that "it's the dawn of the future—and always will be."

But the promised blossoming of the Internet as an advertising medium continues to recede. By now, boring banners have been discredited, and pop-ups seem to aggravate users even more. TV spots during *Everybody Loves Raymond*. And it's likely to be years before most Americans have the broadband "pipes" into their homes that can support the delivery of full-motion TV ads—assuming Netizens have any patience for those in the first place.

That may be bad news for companies that are banking on selling lots of new ads, but it doesn't mean that marketers are shunning the Internet altogether. Many have come to recognize that the beauty of the Internet is that it can put lots of information about products and how to buy them in reach of every potential customer. Everything from additional information to product specs is readily available for any consumer who wants it—without forcing it on those who don't.

That makes the Internet a powerful marketing tool—but not when it's used for pop-ups and banners. Instead, marketers are using traditional techniques like packaging, promotions, and direct ads to steer consumers to companies. Web sites packed with product information, entertainment, and branding messages. That can mean mini-films hosted at BMW's site and gaming tips at Sony Corp.'s PlayStation site, but even marketers of more mundane products like Ben & Jerry's Yogurt are making it a priority to drive traffic to the home URL. The payoff, says Dannon Co.'s marketing vice-president, Eric Leventhal: "A company can forge direct relationships with those who visit to gather samples and participate in promotions. At the same time, it can build a database of its best consumers whose loyal-

ty it can cement with more targeted efforts like coupons and direct mail offers. Bottom line: The Internet's day as a marketing venue may yet come, but that still won't mean big ad sales.

3 SHOW US THE NUMBERS

Advertisers will demand results that they can measure

Marketers no longer have to convince top management that marketing is a necessity. But if they want their budgets approved, they'd better be able to show that those dollars are working. Corporations are starting to demand the same accountability for marketing investments that they do for capital investments like machines or trucks, at a time when such gauges are still pretty much a black art.

Still, marketers are making headway. Before it goes national with a new ad, Pepsi-Cola now uses Information Resources Inc.'s BehaviorScan service to pipe different TV ads to different households in test markets in Eau Claire, Wis., and Cedar Rapids, Iowa. Then it measures those ads against the households' actual purchase activity to see if the commercials work.

Similarly, when MasterCard USA concluded that off-the-shelf solutions were not up to the job of measuring whether or not the company's commercials resulted in consumers using their cards more often, MasterCard invested five years in developing a proprietary system that can assess the effects of hundreds of variables. "It's important to show the ROI on every dollar we spend and where the good investment areas are," says Larry Flanagan, executive vice-president and chief marketing officer. "Our management and board of directors are made up of bankers who like to see the numbers." Warning to marketers: This time around, it won't just be bankers who demand to see the numbers.

4 IS BIGGER REALLY BETTER?

When it comes to choosing an agency, one-stop shopping is out

For years, the major agency holding companies have been trying to convince their clients of the advantages of parking all their marketing needs within the same global company—and have used that as a rationale for accumulating scores of promotion agencies, public-relations firms, package-design consultancies, Web site developers, and direct-

mail houses to provide those services.

But is bigger really better? Few marketers are buying that. Instead they're more apt to look for the best provider in each discipline. The argument that the ad agency's sister company will have a better handle on the brand just doesn't cut it these days. Parking all the business with a single company "becomes a very homogeneous experience," says Debbie Myers, head of media services, licensing, and entertainment for YUM! Brands Inc.'s Taco Bell restaurants. The fast food chain prefers to parcel out media buying and promotions to one holding company and national planning to another.

The single-shop strategy hasn't worked out so well for the holding companies, either. Although they insist their model isn't broken, financial pressures have forced them to put the brakes on major acquisitions, and some are even looking to shed assets. Some ad experts even think that the independent ad agency—still on the endangered species list—may be ready for a comeback as clients clamor for greater creativity and less bureaucracy.

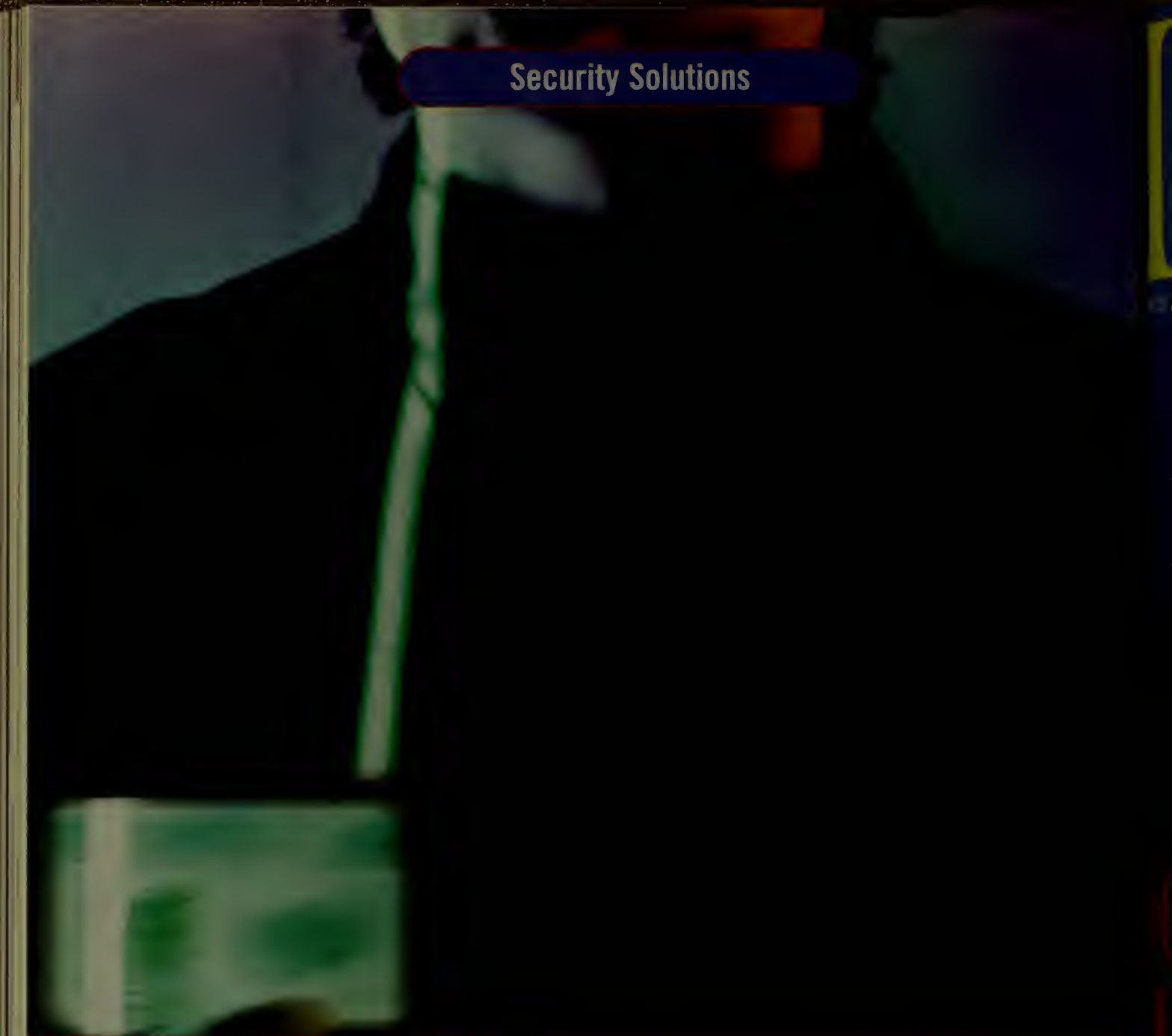
5 AIMING FOR THE BULLS-EYE

Magazines with loyal readers and tight focus will come back

After swelling during the boom to the thickness of Russian novels, magazines have been a mixed bag during the bust. Well-targeted publications with an advertising base of consumer products and services have often thrived through the downturn. Business and tech magazines, meanwhile, have taken it on the chin, as finance and tech companies cut back on advertising and corporations in all sectors decided there was no point spending money on image ads during a bear market. Still, for marketers looking to reach a specific kind of consumer, there's a magazine that can deliver the audience, whether it's the shopping fanatics who flock to Condé Nast's *Lucky* or the skateboarding enthusiasts drawn to AOL Time Warner's *TransWorld Skateboarding*.

Even if the ad recovery doesn't succumb to war in the Mideast or other shocks, it's likely to be a gradual climb, not a boom. But at least the money that's spent may be spent more wisely. "We're seeing some rationality come back to the market," says Sam Hill, president of marketing consultant Helios Consulting Group. After the excesses of the sock-puppet years, that's not such a bad thing.

By Gerry Khermouch in New York



Security Solutions

Biometric identification empowers advanced control.

NEC is a world leader in proven biometric identification systems that are incredibly accurate, sophisticated and extremely reliable. Whether at a public institution or at an enterprise, we can provide fast and accurate identity verification while safeguarding personal privacy. Stemming from our world-class research and technology expertise, it's the kind of innovative solution you'd expect from NEC. From networking, systems integration and custom semiconductor solutions, we empower people through innovative technology. Call 1.800.338.9549 or visit www.necus.com.

Empowered by Innovation

NEC

BusinessWeek

Investor

MAKING LIFE RICHER

MAY 20, 2003

Hot Money Managers

You Never Heard of
Page 78

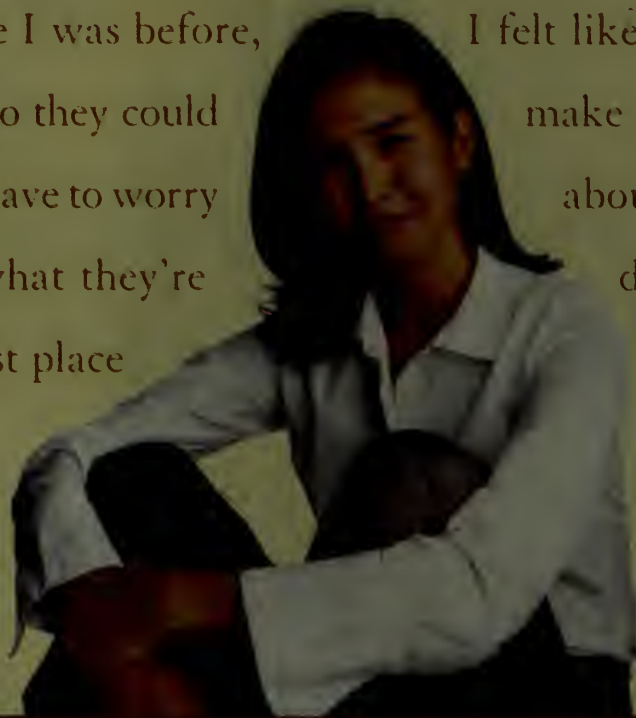
WINE 82 Newfound Respect for Sicily
AUTOS 84 Honda's Funky SUV
BARKER 85 Stocks and 'The Bachelorette'

Well Capital
Management's
Hartzell

I moved my money to Charles Schwab because:

I WANT WHAT'S BEST FOR ME, NOT MY BROKER.

At Schwab, I feel like I can trust them to give me advice based on what my needs are. Where I was before, I felt like they were pushing certain products so they could make money. At Schwab, I feel like I don't have to worry about my investments because I trust what they're doing. I honestly feel Schwab is the best place for my money.



*Beth
moved her money
to Charles Schwab
in August 2002.*

In the past year, individual investors moved more than \$30 billion in assets to U.S. brokerages.

Come see why there's never been a better time for Charles Schwab.

charles SCHWAB

Call	1-866-751-3259	Click	schwab.com	Visit	370 locations nationwide
------	----------------	-------	--	-------	--------------------------

Charles Schwab & Co., Inc. is proud to feature its brokerage clients in advertising and their testimonials reflect their actual experience with Schwab. Clients gave their testimonials before being compensated. Their comments are their own and may not be representative of other clients. Net new assets as of the end of September 2002 consist of Schwab's Retail individual investor assets and individual investor assets custodied at Schwab and managed by independent Investment Advisors. © 2003 Charles Schwab & Co., Inc. All rights reserved. Member SIPC/NYSE. (1202-11042). ADS245591.

dividends

tips,
tidbits &
more

EDITED BY
TODD GUTNER

THE STAT

323

THOUSAND. The projected number of recreational vehicles sales in 2003—the highest since the 389,000 sold in 1978.

Data: Recreation Vehicle Industry Assn.

TAX MATTERS

YIELDS TO COUNT ON

Could President Bush get his way and ditch the tax on dividends, investors will be clamoring for high-quality, dividend-paying stocks. So we asked Standard & Poor's to identify some. S&P screened for companies that had an S&P "buy" rating, long historical earnings and dividend growth, and a yield better than the market's 3%. Here are a few that made the cut:

COMPANY/SYMBOL	% YIELD*
SOUTHWEST AIR	4.5
NATIONAL CITY	4.2
FRANKLIN DOWNEY	3.5
PPG INDUSTRIES	3.3
RPM INTERNATIONAL	3.3
WELL	2.8
WELLS RUBBERMAID	2.8
WILSON SUBURBAN	2.7
WALGREENS	2.7
AT&T	2.6
STARBUCKS	2.6

*As of Jan. 7



MUTUAL FUNDS

Why risk it?

WHO HAS BEEN RIDING out the market most steadily? That's what New York research firm RiskMetrics Group wondered about the big U.S. stock mutual funds. Steady performers are attractive because they help keep investors from jumping ship in stormy times. Staying the course "is how you build wealth," says RiskMetrics strategist Michael Thompson.

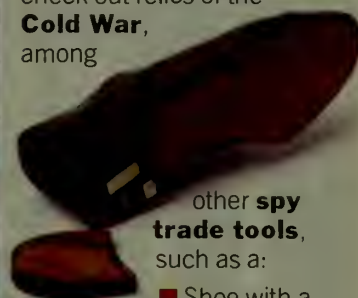
So the firm checked to see which funds with \$5 billion or more in assets kept price fluctuations to a minimum over the past three years. The Standard & Poor's 500-stock index scored a 109.9 "RiskGrade," the measure of price volatility relative to a basket of global stocks, bonds, and other assets created by RiskMetrics. The least risky fund, with an average RiskGrade of 69.3, was **Fidelity Low-Priced Stock Fund**, followed by **American Mutual** (70.3) and its sibling fund, **Investment Company of America** (77). Managed since its 1989 inception by Joel Tillinghast, Fidelity Low-Priced Stock returned an annual average of 11.1% (load-adjusted) over the three years ended Dec. 31. The S&P 500 lost an annual average of 14.6%.

Robert Barker

TIME OFF

SPY GAMES

At the **International Spy Museum**, in Washington, D.C. (www.spymuseum.org), check out relics of the **Cold War**, among



other **spy** trade tools, such as a:

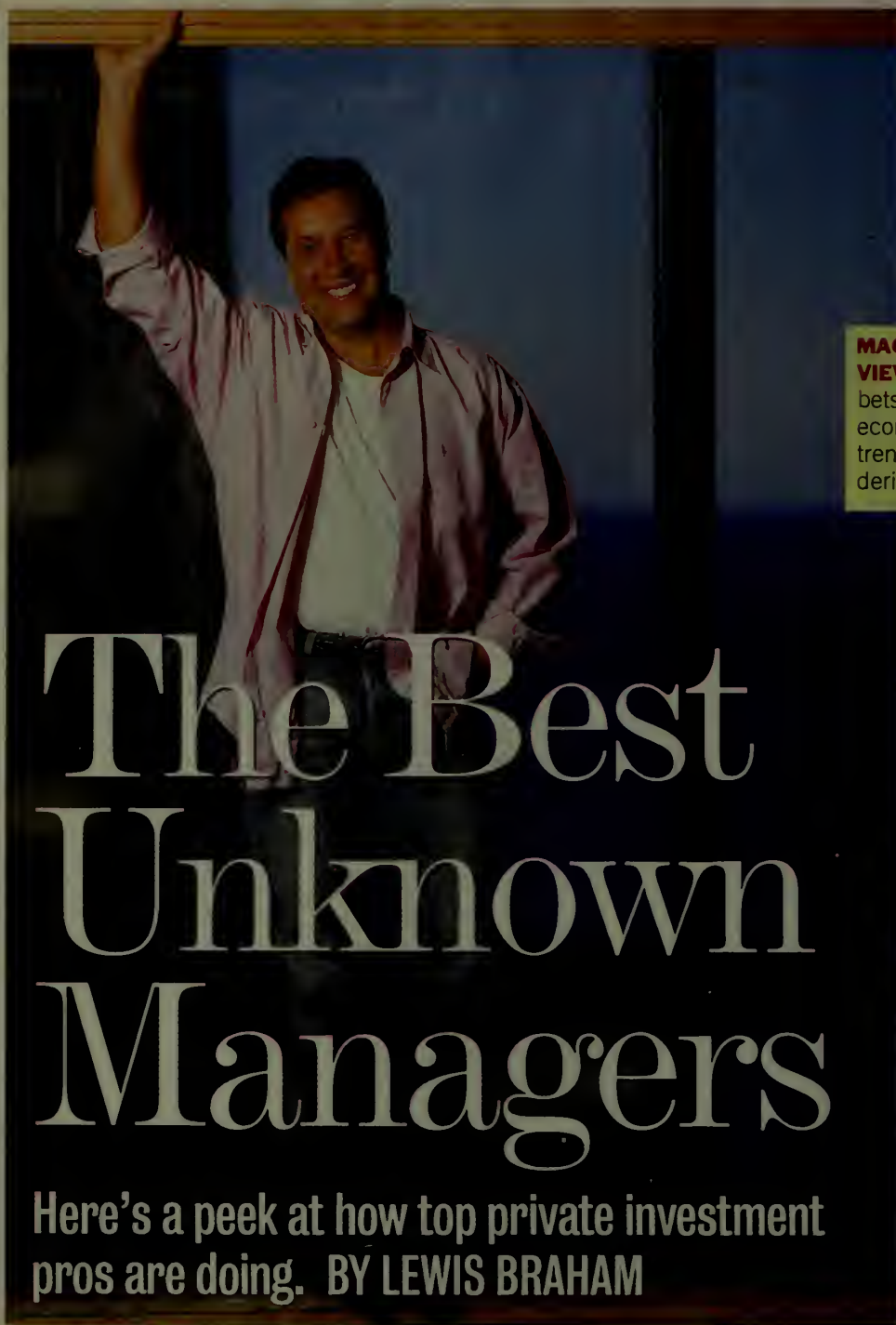
- Shoe with a built-in radio transmitter in its heel that reports the location of wearer to a nearby monitor;
- Camera hidden inside a pigeon decoy;
- Lipstick pistol that fires a single shot when the tube is twisted.

APPLIANCES

WARM ALL OVER

Finally, a **space heater** that heats a whole room instead of just the person it's pointed at. **Vornado's DVH (\$100)** uses a fan to create a vortex of warm air that circulates around the room. Set-and-forget digital controls let you maintain the exact temperature you want without the hot/cold cycles that most space heaters inflict.





The Best Unknown Managers

Here's a peek at how top private investment pros are doing. BY LEWIS BRAHAM

YOU COULD call David Hartzell the Amazing Hartzell. When he was 15, Hartzell, president of Cornell Capital Management, joined the circus and spent two summers away from home juggling, eating fire, and walking the tightrope. In college, he set a world's record: 31 hours lying on a bed of nails. His record as a money manager is also pretty amazing. Cornell Capital's Value Equity Portfolio has delivered a

21% annualized return over the past 10 years, more than doubling the gains of the Standard & Poor's 500-stock index. And that record includes some losses during the bear market, too. (The firm's returns are as of Sept. 30.)

Chances are, you haven't heard of Hartzell, who at age 45 manages \$15 million in assets from his home in snowy Clarence Center, N.Y., northeast of Buffalo. He runs only private accounts with a \$100,000 minimum investment. These exclusive investments, which are sometimes called separately managed accounts, have become popular because they are more flexible than mutual

funds, allowing the money manager to tailor a stock portfolio to suit an individual investor's needs. But their returns are not published in newspapers or magazines, and they're often reported only quarterly. Such info—Hartzell and others'—is found in databases such as Nelson's Investment Manager Database and CheckFree's M-Search, which brokers use when they sell these accounts to investors.

MACRO VIEW: Stein bets on economic trends using derivatives

Now, Morningstar's new Principia Separate Accounts database has opened the door to *BusinessWeek* to identify heretofore undiscovered managers like Hartzell. The database has flaws (page 80), but it works well enough for us to sift through

2,200 private accounts to find the top-performing managers. The database, which comes on a CD-ROM, costs \$1,395 a year—not cheap, but perhaps worthwhile for investors with large sums who have or are seeking private managers.

Some of the managers in the database, such as Artisan Partners and Rowe Price, also run mutual funds. Many of the best are virtually unknown. So if you have separately managed accounts through brokers, you may want to ask about them. What's more, a number of these managers will deal directly with investors, cutting out brokers' fees.

GLOBAL PLAYER

Bill Strong, president of Mason Hill Asset Management, doesn't even work through brokerage firms, but offers his services directly to investors who can meet his \$1 million minimum. He charges a flat 1.5% of assets per year as a management fee, unusual in an industry that typically charges 3% for small accounts and as little as 1% for large ones. His firm has only \$60 million under management, but his results and pedigree are worthy of greater notice.

Strong, 53, cut his teeth during an eight-year stint at the legendary Sequoyia Fund, which is run by two B-school classmates of Warren Buffett's and has long been closed to new investors. He founded New York-based Mason Hill in 1987. As a value investor, Strong looks for stocks that are trading at a substantial discount to what he estimates their worth would be as private companies. The discount, he says, provides a "margin of safety" against long-term losses in the portfolio. With his mandate, he can invest anywhere in companies of any size. He has been finding value in recent years in small, obscure companies in Europe and especially now, in Asia. Oddities such

nick, a British manufacturer of arcade games, and Société Immobilière Marseille, a French investment company, are a norm for him. With such small companies, he has earned big returns: 20.2% one-year and 22.6% five-year annualized returns, respectively.

While Strong is definitely a bottoms-stockpicker, Robert Stein, who runs for Asset Management's Long-Short program out of Chicago, is on the opposite side of the spectrum. Stein, 40, started as a project analyst at the Federal Reserve in the 1980s, where he focused on macroeconomic factors that affect the stock market. As a result, he doesn't even trade stocks, but uses exchange-traded funds and index futures to bet for or against the S&P 500.

Stein examines three major economic variables—gross domestic product, employment, and capital expenditures—to determine whether the economy is in an expansion mode or not, then places his bets—long or short—according-

bottom. Rather, he's looking for long-term economic trends.

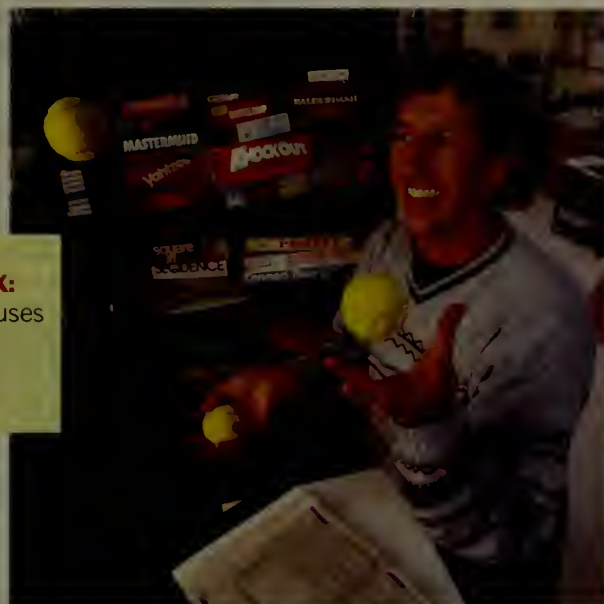
"The main goal of our economy is to create jobs," he says. "If there's more employment, more capital investment, and a higher GDP, then we're in an expansion, and the stock market rises." If the opposite is true, it falls.

Last year, the economy lost half a million jobs and the rate of GDP growth declined from 5% in the first quarter to less than 2% in the fourth quarter, so he is still 100% short. Though this negative position has remained fairly constant for the past

two years, Stein is not a perpetual bear. He also profited during the 1990s bull market, having a 19.7% 10-year annualized return.

OUT OF THE BOX:

Hartzell uses different investing styles



though privately managed accounts are spreading, there's little information available that allows investors to find and assess managers' track records

ly. "Most money managers invest in one type of economic environment—expansion," he says. "They buy and hold stocks. But the more important thing is to be on the right side of an economic trend."

Stein dislikes being called a "market timer," someone who

VALUE INVESTOR: Strong looks at stocks trading at a big discount

uses technical indicators such as chart patterns and price momentum to determine whether the market is at a top or a

Hartzell's Cornell Capital Value Equity Portfolio is more eclectic than either of these firms. "We don't fit into a specific box," he says. "We buy small stocks, large stocks, growth, and value." Hartzell says he's looking for companies with "great products, great management, and proven earnings every quarter." During the 1990s, he bet heavily on technology, scoring huge gains on AOL, Cisco Systems, and Microsoft, but he began shifting some assets toward consumer holdings such as Bed, Bath & Beyond,

Dollar General, Johnson & Johnson, Safeway, and Walgreen when the bear market began. He's also a buy-and-hold sort, usually trading only at the end of the year to rebalance the accounts.

HIGHER MINIMUMS

For wealthier individuals—those who can meet the \$2.5 million minimum for opening an account—Sterling Johnston Capital Management's Micro Cap Aggressive Growth portfolio could be an attractive option. It has the best five-year annualized return, 29.3%, of any private account tracked by Morningstar. Manager Scott Johnston is a hard-core growth investor, looking for small companies with market caps of less than \$1 billion that have accelerating earnings, strong balance sheets, surging stock prices, and a "big catalyst" for future growth.

Johnston, 57, says that in the volatile microcap market, it's important to be a



Undiscovered and Underappreciated

PRIVATE ACCOUNT	AVERAGE ANNUAL TOTAL RETURN			PHONE NUMBER	INVESTMENT MINIMUM \$ THOUSANDS
	3 YRS.*	5 YRS.*	10 YRS.*		
Astor Asset Management Long-Short Program	17.4%	24.2%	19.7%	800 899-8230	\$100
Century Management All Cap Value Portfolio	19.3	14.2	14.1	800 664-4888	500
Cornell Capital Value Equity Portfolio	-10.9	11.9	21.0	716 741-0149	100
Mason Hill Asset Management Composite	20.2	22.6	15.4	212 832-1290	1,000
Sterling Johnston Micro Cap Aggr. Growth	25.9	29.3	N/A	415 477-2300	2,500

*Returns as of Sept. 30, 2002. Returns are net of fees and include capital appreciation plus reinvestment of all dividends. Data: Account Managers

nimble trader. "We get into these stocks very early in their growth cycle, and if a stock goes against us, we get out very quickly," he says. The fund has held upwards of 25% of its portfolio in technology stocks in 2002, yet still has fallen only 8.4% through Sept. 30, thanks to the resilience of Johnston's stocks. He currently has been adding to his shares of Cray, the old supercomputer maker that's getting a new lease on life, thanks to increased sales to the U.S. Defense and Energy Departments.

U. S. FOCUS

Once a money manager gains enough traction running private accounts, he may decide to open a publicly traded mutual fund. That's the case of 36-year-old James Brilliant, who runs Century Management All Cap Value Portfolio. After successfully gathering \$830 million in this portfolio and enviable 19.3% three-year and 14.2% 10-year annualized returns, Brilliant is launching the Century Management Fund in February. That fund will still have a steep \$100,000 minimum investment, but that's a lot less

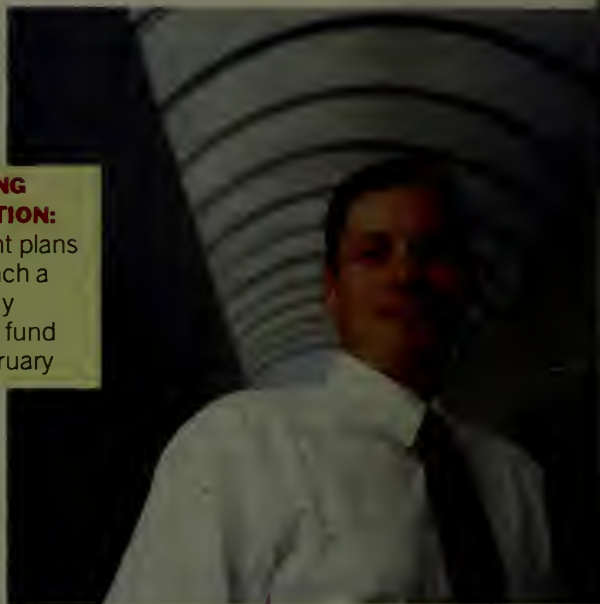
than the \$500,000 currently required for a private account.

Brilliant's style is similar to Bill Strong's of Mason Hill, except that he focuses on U.S. stocks. Brilliant is looking to purchase shares of companies selling at least 50% below their private market value: One of his current holdings is Toys 'R' Us. The company has been spending heavily on remodeling to update its stores and somewhat old-fashioned image. "Now, their remodeling expenses have already been paid," says Brilliant, "and free cash flow will rise."

Although Brilliant is launching a mutual fund, many of these private managers will always remain private—either because their investment strategies

GAINING TRACTION:

Brilliant plans to launch a publicly traded fund in February



don't work well in a public fund form or because they simply don't want to deal with the hassles of servicing smaller investors. So they will stay relatively unknown, which is to the advantage of anyone lucky enough to discover them.

TRACKING THE ELUSIVE PRIVATE ACCOUNTS

Privately managed accounts are different animals from mutual funds. They have distinct tax features, fee structures, and disclosure requirements. Because of these disparities, following them is a challenge. But fund tracker **Morningstar** has risen to the occasion, **creating a database of about 2,200 private accounts**, about half the total number. "We're still in the build-up phase," says Ryan Tagal, Morningstar's product manager.

Right now, the database has a few kinks, and ironing them out will not be easy. The biggest problem is how managers report returns. Private accounts can disclose two types of returns—gross and net. Gross returns don't deduct management fees, which can range from 3% of assets for the smallest accounts to 1% for the largest. Still, gross returns are important because they show the manager's investment acumen. **Of course, no investor actually earns the gross return.**

Net returns have problems, too. "Quite a few money managers don't [publish] net returns for their accounts, and when they do, they take the maximum fee out and deduct that from the gross," says Tagal. Such a statistic would be useful for only the smallest accounts that pay the highest fees. So Morningstar does not publish net returns.

The validity of the information collected is another problem. The Securities &

Exchange Commission does not subject private accounts to the same disclosure requirements as mutual funds. For instance, the accounts don't have to file annual reports with the SEC. Many managers follow a reporting standard set up by the Association for Investment Management & Research, a nonprofit industry group, but its rules are for performance only.

Because of the lack of reliable public information, Morningstar collects data using questionnaires filled out by account managers. But that can lead to errors. For instance, the database reported 28.3% 10-year gross annualized returns for accounts in the Astor Long-Short Program as of Sept. 30 instead of the actual 23.1%, because Astor inserted the information for the wrong product by mistake. *BusinessWeek* found performance-related errors with two other firms.

A big selling point of many private accounts is their ability to be customized to reduce capital-gains distributions for tax-averse investors. Morningstar's manual data collection causes snags here as well. If the manager

doesn't fill out a portion of the questionnaire, the database reports that they do not offer customization. "Not all firms fill out the survey completely," says Tagal.

Although the database has its drawbacks, it has great potential to shine light on a murky area. As Morningstar works out the kinks that light should become clear enough for investors to distinguish between good and bad private accounts.

Lewis Braha



COMMENTARY

SMALL CAPS: INDEXING BEATS THE PROS

BY LEWIS BRAILAM

THE PAST few years have tarnished many of Wall Street's pearls of wisdom: Buy on the dips. The trend is your friend. Tech stocks aren't cyclical.

Now, it's time to call into question another one—that actively managed mutual funds trump index funds when it comes to small-cap stocks.

For years, pros have argued that smaller companies are little followed and that their shares are often mispriced. So savvy investors should find gains among them. But a recent study by Standard & Poor's (like *BusinessWeek*, a unit of The McGraw-Hill Companies) challenges that notion. It found that only a third of small-cap actively managed managers beat the S&P SmallCap 600 Index during the five years ended Sept. 30, while 37% of large-cap funds at the Standard & Poor's 500-stock index.

The study matters because it takes into account the performance of funds that were liquidated due to poor performance or too few assets. Without this adjustment, the results would have been skewed in favor of actively managed funds by "survivorship bias."

Recent study by S&P found that two-thirds of managed funds trailed the SmallCap 600 Index

In the past five years—a period of unique market highs and lows—16% of domestic equity funds disappeared. Many studies have failed to account for this bias.

Why did so many small-cap funds trail the index? Higher costs. "If an index is constructed properly, active managers should lag it after costs, regardless of whether the index tracks small-, mid-, or large-caps," says Gus Sauter, chief of Vanguard Group's equity index funds. In the small-cap area,



na, those costs are steep. The average annual expense ratio for small-cap funds is 1.58% of assets, vs. 1.36% for large-cap funds and about 0.3% for index funds. Small-cap funds also incur higher transaction costs when they trade illiquid securities. Sauter says such costs are at least 1.5% of assets for active small-cap funds.

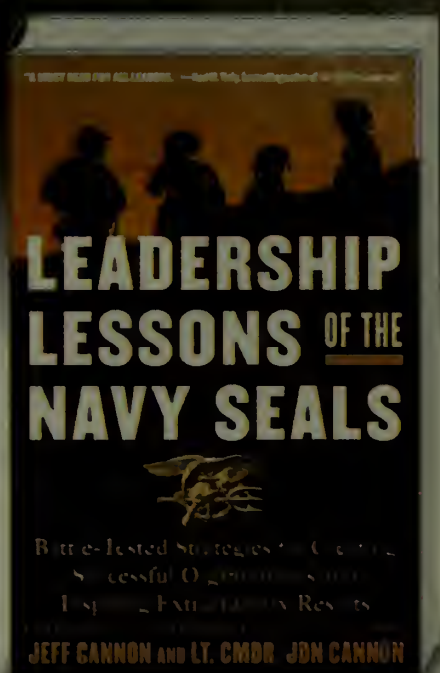
Some managers argue that stocks in small-cap indexes aren't representative of managers' holdings. For starters, the S&P index doesn't have the initial public offerings these managers often buy. What's more, "the average small-cap fund owns stocks that have a higher market capitalization than the average stock in small-cap indexes," says Morty Schaja, president of Baron

Funds, which manages \$3 billion. "In recent years, the smallest stocks have performed better." True, but managers could always buy those smaller stocks and shun IPOs.

The Moral: If you like index investing, try small-cap index funds as well as large. If you don't, concede that you may have as much trouble beating indexes as managers do.

Personal Finance Editor Braham writes about mutual funds.

CAN YOU COMMAND WHEN IT COUNTS?



"A must read for all leaders."

—Noel M. Tichy, bestselling author of *The Cycle of Leadership*

Leadership Lessons of the Navy SEALs is your battlefield guide to attacking and overcoming any business challenge.

Learn how to communicate objectives, gain trust, and plan for crises as you execute the elite leadership and teambuilding techniques of this legendary organization.

BARNES & NOBLE
BOOKSELLERS
www.bn.com

**ISLAND BREED:**

Harvest time at the Donnafugata vineyard

A Renaissance In Sicilian Wine

World-class results with local grapes. **BY GAIL EDMONDSON**

SICILY'S WARM, DRY climate, sloping hillsides, and rocky soil make it ideal for growing grapes—on par with California's Napa Valley. But while Napa vineyards have become known for producing fine, world-class wines, Sicily's 4,000-year-old tradition of bulk winemaking has caused oenophiles to turn up their noses. Until now.

A new generation of Sicilian winemakers from such family-owned estates as Donnafugata, Planeta, Spadafora, Abbazia Santa Anastasia, and Fazio is winning worldwide acclaim for excellent mid-priced and premium wines. Their pleasing fruity character resembles that of California and Australian rivals, but interesting blends with

local grapes put Sicilian wines a class of their own. That has fueled a sense of excitement and discovery among wine critics. "Sicilian wines are leading the global revolution in the perception of Italian wines," says Rick Cartiere, publisher of *Wine Market Report*, based in California. "They are the new wines for connoisseurs."

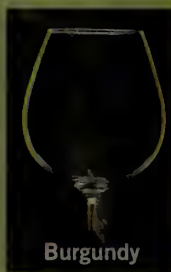
The transformation has come about thanks to changes in viticulture techniques and win-

making expertise. While whites have led the way, reds are now racing up the quality curve. Until recently, Sicilian reds were overly heavy and alcohol-laden, with a content as high as 18%. But a new breed is winning accolades in tastings around the world. Most vineyards are proving themselves with classic varietals such as cabernet and merlot, as well as blends with local grapes such as the nero d'Avola, to produce full round reds that age as beautifully as a Bordeaux Grand Cru. **Donnafugata's Tancredi** (1998) for \$25, a smooth blend of nero d'Avola and cabernet sauvignon with a slight aroma of blueberry, took high honors at last year's Vinalies Internationales competition in Paris.

To set themselves apart from the New World producers flooding markets each year, Sicilian winemakers are keen

The Right Shape for The Vino

Why the glass can bring out the best



Burgundy

winemaker brings depends on what he plans to drink. He has a glass for syrah, another for pinot noir, and one for

Tim Spear takes his own wine glass to restaurants, and the particular glass the Arroyo Grande (Calif.)

cabernet sauvignon.

More Americans, like Spear, are buying into a theory espoused by makers of such specialized glasses—that the size and shape of the bowl make a difference in the taste of the wine.

Georg Riedel, owner of the Austrian glassworks that makes Riedel, explains the concept. Riedel's Burgundy Grand Cru,

he says, has a flared rim that delivers the wine to the tip of the tongue, where taste buds most sensitive to sweetness are



Pinot Grigio

concentrated. That brings out the fruitiness—a lean pinot balancing acidity.

Spiegelau makes less

owcase their local grapes. "Five years ago, no one outside ly knew nero d'Avola," says Alessio Planeta, one of three usins who transformed the Planeta family fruit orchards to one of Sicily's fastest-growing wineries. Nero d'Avola's h, full ruby-red wines with a typical alcohol content of 14% e closest in character to syrah. **Planeta's Santa Cecil-**

(\$32) is made from nero d'Avola grapes from two regions Sicily, creating a complex scent of black fruit, with clove, rob, and vanilla accents.

Another pure nero d'Avola is **Duca di Salaparuta's uca Enrico** (\$65), which has aromas of red currant and ums. Far from the syrupy nero d'Avola wines of past enies, Duca Enrico's is elegant, with soft tannins that age acefully for 10 to 15 years. **Fazio's Torre dei Venti ero d'Avola**, made from grapes grown on the slopes of Mt. rice in western Sicily, has notes of blueberries and raspberries. Sicily's local white wines are based on grapes such as tarratto, inzoli, grillo, and damaschino. These varieties can duce wonderfully clean and fruity wines ideal for imbibing hot climates. But until recently, high-volume planting, urefined winemaking techniques, and the blistering heat uring harvest undercut their potential. Vintners have ad- dressed those problems by pruning up to

one-third of the grapes to concentrate flavor.

They began harvesting at night and transferring grapes to temperature-controlled steel vats to prevent the premature fermentation that erased the characteristic aromas.

Sicily's chardonnays now echo the elegance of good Burgundies. The \$34

laneta Chardonnay (2000) ranked 19 in the *Wine Spec-* or's 2002 list of the top 100 wines. Spadafora's chardonnay will on grace the wine list of French chef Alain Ducasse's tony staurant at the Essex House in New York (where it will sell e roughly \$60 a bottle). **Tasca d'Almerita's Baccante** (2000) for \$30 is another delight, aged in French oak barrels th aromas of honey, coffee, and nuts.

Given its ideal climate and excellent raw materials, Sicily is long been an underachiever among wine-growing re- ons. But today, the Mediterranean's largest island is finally ving Old and New World rivals a spirited challenge. ■

rsive glasses, with 5% crystal rather than s 24%. While s Sommeliers line \$55 to \$89 a stem, e more moderate crystal runs \$9.90 \$90, similar elaus command half that.

n Riedel admits there nt of diminishing



make the wine taste better than a same-shaped glass crafted by machine.

Carol Marie Cropper

returns. A mouth-blown Sommeliers glass may be beautiful, but it's not likely to



CORPORATE AIRCRAFT

Executive Jets: Just Flash Your Card

Looking to avoid the hassles of commercial air travel and the riskier aspects of charters? Consider the latest alternative for your private aviation needs: A **Marquis Private Jet Card**. This single-year, prepaid lease gives you 25 hours of air time on a specific aircraft operated by Berkshire Hathaway's **NetJets**, which pioneered fractional jet ownership and has more owners than its competitors. Starting at \$109,900—and going as high as \$299,900 for use of the top-of-the-line plane—the jet card costs much less than the \$1 million or more required for an ownership share in a corporate aircraft. And it provides the same advantage of flying on a specific plane with a known maintenance history and well-trained crew. "It's a MetroCard for the NetJets fleet," says Marquis Jet Partners' Ken Austin, referring to the New York City subway pass.

Gerry Khermouch



One Beautiful Ugly Duckling

Honda's new Element targets Gen Y, but this versatile SUV is likely to grab fans of all ages. **BY LARRY ARMSTRONG**

UGLY WAS THE WORD that sprang to mind when I first saw Honda's new Element sport-utility vehicle. A big box on wheels, it has all the style of, say, a UPS truck, right down to the slightly arched roofline.

Then I got the chance to live with one (in the color Galapagos Green) for 10 days, just before it went on sale Dec. 19. What a blast! Honda designed the rugged, inexpensive (\$16,560) Element to woo Gen Y. But if this boomer's experience is any indication, it will have a much broader appeal.

Besides its silhouette, the Element's most distinctive fea-

ALL ACCESS: The waterproof, everything-folds-away interior can haul surfboards, muddy bikes, and dogs—or a freezer or wide-screen TV

ture is its ter-opening doors, with side pillar. A with the floor and generous space between the front and back seats

that makes it easy to stow a pair of bikes. It also provided for easy access for my aging, 170-lb. Mastiff.

Or you can load it from the rear. No one-piece hatch or side-opening back door here. The Element has a drop-down tailgate, just like a pickup truck. Both front and rear seats fold flat to accommodate, say, 10-foot surfboards. If you need even more room, the rear seats easily flip up and slide along the side windows. Honda says there's enough space to move the contents of the average dorm room. I found it just the ticket for hauling home a bulky chest freezer from Best Buy.

And who won't appreciate the waterproof seat fabric and urethane-coated, industrial-look floor? It snaps to wipe up mud, snow, and sweat (not to mention kids' stray munchies and puddles of juice).

The four-cylinder, 160-horsepower engine can feel sluggish at times, especially when equipped with an automatic transmission (\$800) instead of the standard five-speed stick shift.

But the Element handles nicely, going around corners, for example, with none of the tippy feeling you get with most SUVs. The base model is stripped-down, with power windows but no air conditioning or radio. At \$19,110, the step-up EX version adds those, plus cruise control and anti-lock brakes, among other things. Its 270-watt audio system comes with a jack for your MP3 player—and yes, that's a subwoofer thumping away under the console, dude.

If you're interested in little luxuries, such as plush velour carpets and leather seats—take a pass. What Honda has done is put utility and affordability back into sport-utility vehicles. And, prodded by onlookers, I've changed my mind about its look. My generation would call it "funky."

GO FOR IT

The Honda Element offers more than 60 extras that let you make it your own, from fog lights to a customizable roof rack



INTERIOR TRIM, \$59-\$160

You dress up your cell phone with a snap-on faceplate—now, do the same for your car. Choose metallic blue or gray for the instruments and blue, black, or green for the steering wheel.

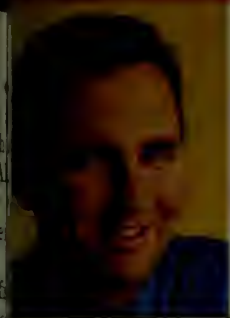
CABANA, \$250

Privacy, please. Good for a quick change at the beach or extended outings away from home. There's a custom curtain (\$165) for the inside, too.



INTERIOR BIKE MOUNT, \$150

Sure, you can carry your bike on a roof rack, but won't you feel more secure if it's bolted to the floor inside?



WHAT THE BACHELORETTE CAN TEACH YOU

BY ROBERT BARKER rb@businessweek.com

cheduled to debut on Jan. 8, ABC's Wednesday night reality vision series The Bachelorette is indubitably an odd e to look for investment smarts. But dating and sting both involve fun, fantasy, fears, tears, hope, dread, eting out hidden facts, and, often as not, disappoint- t. Also, The Bachelorette figures to present many lively es in hot tubs; investors, of course, take frequent baths.

Does bachelorette Trista Rehn have anything in common with individual investors?

Well, most of us aren't as bikini-ready as this 29-year-old physical therapist from Miami (photo, below). In many ways, the task she faces is like our quest to find a winning stock. From among 25 men chosen by the show's producer, she aims to find a fiancé. As Trista dates them in upcoming episodes, we can watch her cull all but one she believes promises her a lifetime of love.

Is dating safer than stock-picking.

Not really. The U.S. Census Bureau counts 8,602,000 single women near Trista's age. Yet she must select from just 25 guys.

And what a narrowly drawn group they are.

The show's producer required the bachelors to be childless U.S. citizens who were willing to skydive and parasail. They describe themselves with such adjectives as "adventurous." To a man, they are hunks.

So you think Trista's soul mate might instead be a meek,

homely single dad with a green card, one whose idea of an extreme sport is hitting the laundromat on Saturday morning?

Thing is, you never know where Cupid's arrow will fly. Same with investing. It's a fact that meek, homely small-cap

value stocks have made better bets than hunky large-caps or sleek growth stocks. From 1926 to 2000, big growth stocks returned 10.8% a year on average. Little, beaten-down value stocks? 14.9%. Those, however, are rarely the sort that Wall Street firms talk up. A year ago, how many investors had their brokers suggest buying into that hot textile company, Dan River? Or that promising Hecla Mining? Yet of the New York Stock Exchange's 2,798 companies, those were two of last year's top performers, up 400% and 438%, respectively.

How can you know Trista won't find a big winner among Billy, Bob, four guys named Brian, or one of the other 19?

I can't. But consider this lapse: As the show was taped last fall, Trista avidly romanced the bachelors. "Sensuality is an important part of a relationship," she said. "I'm not going to shy away from that just because there are cameras." Yet she barely touched on a topic that causes even more marital strife than in-laws and sex: money. "Definitely," Trista told me, "I didn't focus on money."

So what?

In the heat of her love quest, Trista avoided exploring a key to marital longevity, compatibility on money matters. In just this way, too many investors ignore a key to investment success—that is, corporate debt control. Seasoned investors everywhere tell rueful tales of letting the allure of hot earnings growth (the investing equivalent of sex) blind them to the risk of too much debt. Who wants to talk coverage ratios when you can focus on profits? You didn't have to own a fraud like WorldCom to suffer this way last year. Anyone owning even Ford Motor learned this lesson the hard way.

IN LOVE: Like many investors, Trista Rehn is listening to her heart, not her head

Is Trista worried that she took too many shortcuts on her journey?

Not a bit. "This definitely was the most worthwhile experience I could have ever lived through," Trista told me. "I have no regrets whatsoever." My translation: Like so many investors, her heart has taken control of her head.

Enough of your depressing negativity. Did Trista spill which bachelor she picked?

The show's producer would have killed her. "I can't tell you whether or not I'm engaged," she said. "But I can tell you I am in love." Here's hoping she feels this well-off a year from now. ■

BusinessWeek online

For an archive of columns, go to www.businessweek.com/investor/ and click on "Columns"





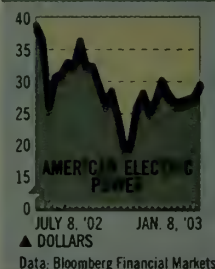
THE SURGE AT AMERICAN ELECTRIC POWER MAY BE SHORT-LIVED BUSINESS IS SET TO ROAR AT 100-YEAR-OLD HARLEY-DAVIDSON ECC'S BOSS HAS A SPECIALTY: GROOMING COMPANIES FOR SALE

BY GENE G. MARCIAL

Short Circuit at AEP?

American Electric Power (AEP), operating in 11 states, has been a live wire lately. Its stock, which hit 48 in April, plunged to 15 in mid-October, prompting the company to reduce its exposure to speculative energy-trading markets. Since then, it has rebounded to nearly 30—in part because of the Bush plan to eliminate taxes on dividends. American pays a hefty \$2.40 a share annually, a yield of almost 9%. But a few pros shorting the stock say AEP is facing a liquidity squeeze and is having difficulty supporting its huge payout. Some analysts warn that AEP may have to cut the dividend—which would hammer the stock. On Dec. 11, Moody's Investors Service lowered AEP's credit rating and placed its commercial paper on review. AEP insists it won't touch the dividend. But the Moody's review "could result in a further downgrade," warns Steven Fleishman of Merrill Lynch, who is neutral on the stock. Merrill has done banking for AEP in the past 12 months. Moody's was concerned about AEP's declining earnings and cash flow and the high dividend ratio of 86%. One pro who is short AEP at 25—and who reaped big profits in shorting Enron and WorldCom in 2001—sees AEP hitting a new low of 14 in a year. He says AEP is holding off action on the dividend so it can do a secondary equity offering at the current price. But he warns that new equity sales would mean increased payouts on the new shares—which will worsen cash flow. Daniel Ford of Lehman Brothers, who rates the stock "equal weight," says AEP needs to cut the dividend to alleviate Moody's concerns. Ford sees earnings of \$2.80 a share in 2003, down from an estimated \$2.85 in 2002 and \$3.38 in 2001. AEP says it has no plans at this time to announce a secondary offering.

GOOD DIVIDEND NEWS SPARKED A RISE

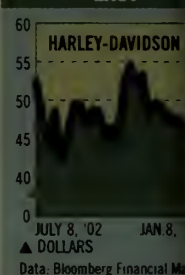


Going Whole Hog At Harley

If you think winter is the time to buy straw hats, now may be the season to buy shares of Harley-Davidson (HDI), too. Motorcycle sales fall off in cold weather, but they have been hit especially hard by this year's icy blasts. The stock has also been pounded, with 16.3 million shares sold short. But Joe Yurman of Bear Stearns says there's no erosion in fundamentals to

justify the drop from October's 55 to December's 45. Harley has since risen to 47.36, and he sees it at 60 or 62 a year. "Demand for Harley's bikes remains strong," says Yurman, who backs the stock for the long haul. He says Harley will roll out new products for the young crowd in 2003-04 as part of its 100th-year celebration, and will surprise the bears with new features on its road bikes. Yurman sees sales of \$4.5 billion in 2003, up from \$4 billion in 2002 and \$3.4 billion in 2001, and earnings of \$2.15 a share in 2003, up from 2002's \$1.83 and 2001's \$1.43. Joseph Hovorka of Raymond James & Associates rates Harley a strong buy, based on free cash flow and annual earnings growth of 23% since 1991.

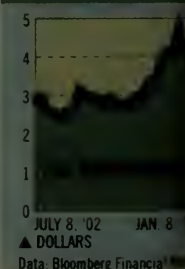
RIDING EASY



ECC International: Ripe for a Takeover

While most defense stocks have fallen since midyear, arms maker ECC International (ECC) continues to fly high. When featured in this column on May 6, 2002, the stock was at 3.20. Buoyed by a profit turnaround and takeover talk, ECC reached 4.90 on Dec. 11 before easing to 4.17 on Jan. 8. A takeover may soon come to pass, say people close to ECC. Last year, ECC formed an internal panel to explore a possible sale. When nothing materialized, James Garrett was replaced by James Henderson of Steel Partners, which owns 29% of ECC. Steel Partners has a history of maximizing the value of its companies and then selling them. Henderson was CEO of Aydin when Steel Partners sold it to L-3 Communications. So the buzz is that ECC will end up in a similar sale—to L-3 or DRS Technologies, now on a buying binge. One investor says ECC is worth 10 in a buyout. ECC earned 11¢ a share in the quarter ended Sept. 30, vs. a loss of 7¢ last year. Trailing 12-month earnings are 56¢ a share, for a low price-earnings ratio of 7.6. ECC has a book value of \$3.54 a share and no debt.

FIRING ON ALL FRONTS



BusinessWeek online Read Gene Marcial's Inside Wall Street Online column Tuesday afternoons at www.businessweek.com today.htm. And see him Fridays at 1:40 p.m. EST on CNNfn's *The Money Gang*.

Unless otherwise noted, neither the sources cited in Inside Wall Street nor their firms hold positions in the stocks under discussion. Similarly, they have no investment banking or other financial relationships with the



Get 1,000 HHonors bonus points
for booking online from the
comfort of your home.

(No matter what your definition of comfort is.)

Book online and stay by February 28, 2003, to earn 1,000 Hilton HHonors® bonus points.

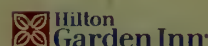
Just cozy up to hiltonhhonors.com to make your next reservation using your

Hilton HHonors account number. Book online and stay between January 1 and

February 28, 2003, and you'll earn an extra 1,000 HHonors bonus points. It's yet

another simple, convenient and comfortable way to get even more with Hilton HHonors.

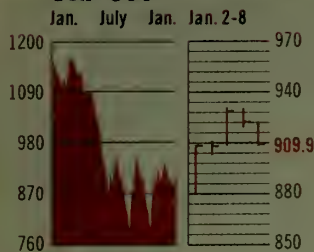
hiltonhhonors.com



Must be a member of Hilton HHonors to earn HHonors points. Please allow three weeks after you complete your stay for the online reservation bonus to appear in your HHonors® account. This offer applies to reservations made on the Hilton®, Conrad®, Doubletree®, Embassy Suites Hotels®, Hampton Inn®, Hampton Inn & Suites®, Garden Inn® and Homewood Suites® by Hilton Web sites. The 1,000 HHonors bonus points cannot be earned in addition to any other HHonors points or airline miles online reservations bonus. Hilton HHonors membership, earning of Points & Miles®, and redemption of points are subject to HHonors Terms and Conditions. ©2003 Hilton HHonors Worldwide

STOCKS

S&P 500

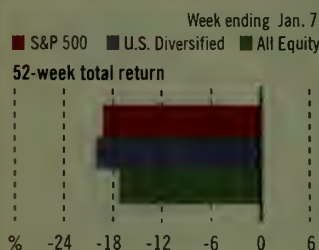
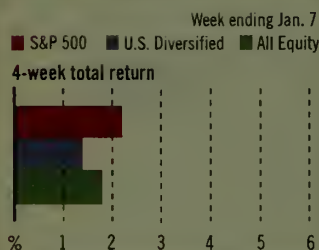


COMMENTARY

Investors greeted 2003 with a bang, sending stocks higher in the first trading session and consolidating those gains over the next sessions. Buyers, however, backed away as President Bush's plan to stimulate the economy was unveiled. Although investors like parts of the plan, they are worried about the effect on deficits and long-term interest rates.

Data: Bloomberg Financial Markets, Reuters

MUTUAL FUNDS



Data: Standard & Poor's

U.S. MARKETS

	JAN. 8	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
S&P 500	909.9	3.4	3.4	-21.9
Dow Jones Industrials	8595.3	3.0	3.0	-15.7
NASDAQ Composite	1401.1	4.9	4.9	-31.2
S&P MidCap 400	435.5	1.3	1.3	-15.1
S&P SmallCap 600	198.8	1.1	1.1	-15.4
Wilshire 5000	8596.0	3.0	3.0	-20.8

SECTORS

	JAN. 8	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
BusinessWeek 50*	552.8	1.9	1.9	-25.6
BusinessWeek Info Tech 100**	301.7	5.7	5.7	-31.0
S&P/BARRA Growth	463.5	3.3	3.3	-22.9
S&P/BARRA Value	443.3	3.6	3.6	-21.2
S&P Energy	182.2	-0.5	-0.5	-13.5
S&P Financials	310.1	4.5	4.5	-13.5
S&P REIT	90.7	-0.1	-0.1	-3.2
S&P Transportation	173.2	1.9	1.9	-17.6
S&P Utilities	103.6	6.0	6.0	-29.5
GSTI Internet	78.4	4.9	4.9	-29.5
PSE Technology	484.0	5.6	5.6	-32.6

*Mar. 19, 1999=1000

**Feb. 7, 2000=1000

BEST-PERFORMING GROUPS

	LAST MONTH %		LAST 12 MONTHS %
Multi-Utilities	15.9	Photographic Products	39.7
Constr. & Engineering	15.0	Metal & Glass Containers	32.0
Electric Utilities	13.1	Gold Mining	18.5
Internet Software	11.7	Food Wholesalers	12.6
IT Consulting	10.6	Housewares & Specialties	11.0

EQUITY FUND CATEGORIES

4-WEEK TOTAL RETURN	%	52-WEEK TOTAL RETURN	%
LEADERS		LEADERS	
Precious Metals	14.0	Precious Metals	61.7
Latin America	9.8	Real Estate	4.6
Utilities	7.2	Natural Resources	-3.5
Communications	5.7	Financial	-5.8
LAGGARDS		LAGGARDS	
Pacific/Asia ex-Japan	-0.8	Technology	-41.6
Natural Resources	0.1	Communications	-35.2
Health	0.3	Small-cap Growth	-27.0
Small-cap Growth	0.3	Health	-25.5

EQUITY FUNDS

4-WEEK TOTAL RETURN	%	52-WEEK TOTAL RETURN	%
LEADERS		LEADERS	
U.S. Gl. Wld. Pr. Minis.	21.8	First Eagle SoGen Gold	100.9
iShares MSCI Brazil Index	21.0	Monterey DCM Gold	88.2
U.S. Globl. Investors Gold	18.7	Van Eck Intl. Invs. Gold A	85.1
Van Eck Intl. Invs. Gold A	18.5	Gabelli Gold	83.5
LAGGARDS		LAGGARDS	
Frontier Equity	-17.5	ProFunds UltraWrlss. Serv.	-71.5
Rydex Dynam. Vent. 100	-9.0	ProFunds UltraSemicdr. Inv.	-69.4
ProFunds UltraShort OTC	-8.9	ProFunds UltraOTC Inv.	-67.6
Fidelity Sel. Energy Serv.	-5.9	Rydex Dynam. Veloc. 100	-66.5

GLOBAL MARKETS

	JAN. 8	WEEK	% CHG YEAR TO DATE
S&P Euro Plus (U.S. Dollar)	868.9	2.9	2.9
London (FT-SE 100)	3924.8	-0.4	-0.4
Paris (CAC 40)	3094.1	1.0	1.0
Frankfurt (DAX)	2993.0	3.5	3.5
Tokyo (NIKKEI 225)	8517.8	-0.7	-0.7
Hong Kong (Hang Seng)	9688.2	3.9	3.9
Toronto (S&P/TSX Composite)	6723.1	1.6	1.6
Mexico City (IPC)	6266.5	2.3	2.3

FUNDAMENTALS

	JAN. 7	WK. AGO
S&P 500 Dividend Yield	1.72%	1.81%
S&P 500 P/E Ratio (Trailing 12 mos.)	29.5	28.2
S&P 500 P/E Ratio (Next 12 mos.)*	17.0	15.9
First Call Earnings Surprise*	11.21%	4.33%

*First

TECHNICAL INDICATORS

	JAN. 7	WK. AGO
S&P 500 200-day average	953.9	958.6
Stocks above 200-day average	38.0%	31.0%
Options: Put/call ratio	0.64	0.72
Insiders: Vickers NYSE Sell/buy ratio	2.28	NA

WORST-PERFORMING GROUPS

	LAST MONTH %		LAST 12 MONTHS %
Home Improvement Stores	-14.8	Multi-Utilities	-6
Airlines	-12.4	Tires & Rubber	-5
Employment Services	-11.1	IT Consulting	-5
Oil & Gas Equipment	-9.3	Telecomms. Equipment	-5
Semiconductors	-8.9	Instrumentation	-5

INTEREST RATES

KEY RATES

	JAN. 8	WEEK AGO	YEAR
MONEY MARKET FUNDS			
	1.03%	1.04%	1.7
90-DAY TREASURY BILLS			
	1.18	1.18	1.6
2-YEAR TREASURY NOTES			
	1.73	1.60	2.9
10-YEAR TREASURY NOTES			
	4.02	3.82	5.0
30-YEAR TREASURY BONDS			
	4.94	4.76	5.4
30-YEAR FIXED MORTGAGE†			
	6.01	5.93	7.2

†BancQuote, I

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 30% federal tax rate.

	10-YR. BOND	30-YR. BOND
GENERAL OBLIGATIONS		
	3.73%	4.7%
TAXABLE EQUIVALENT		
	5.33	6.7%
INSURED REVENUE BONDS		
	3.90	5.0%
TAXABLE EQUIVALENT		
	5.57	7.1%

THE WEEK AHEAD

RETAIL SALES Tuesday, Jan. 14, 8:30 a.m. EST ► December retail sales probably rose 0.4%, says the median forecast of economists surveyed by MMS International. Excluding autos, sales likely grew 0.2%.

BUSINESS INVENTORIES Wednesday, Jan. 15, 8:30 a.m. EST ► November inventories are expected to have increased by 0.1%.

PRODUCER PRICE INDEX Wednesday, Jan. 15, 8:30 a.m. EST ► December producer prices likely rose 0.2%. Minus food and energy, core prices probably held steady.

BEIGE BOOK Wednesday, Jan. 15, 2 p.m. EST ► The Federal Reserve will publish its roundup of regional economic activity ahead of the Jan. 28-29 policy meeting.

CONSUMER PRICE INDEX Thursday, Jan. 16, 8:30 a.m. EST ► Consumer prices for goods and services most likely rose 0.3% in December. Excluding food and energy, core inflation probably increased 0.2%.

INTERNATIONAL TRADE Friday, Jan. 17, 8:30 a.m. EST ► The November foreign trade deficit very likely grew to \$37 billion.

INDUSTRIAL PRODUCTION Friday, Jan. 17, 9:15 a.m. EST ► Factory output probably improved by 0.2% in December.

The *BusinessWeek* production index rose in the week ended Dec. 28 to 164.2, up 3.6% from a year ago. More complete information is available at www.businessweek.com.

BusinessWeek online

For the BW 50, more investment data, and the components of the production index visit www.businessweek.com

Now that you share
so many of the
same challenges.
The time has come
for you to share the
same conference.

BusinessWeek

| *Events*



The BusinessWeek CFO+CIO Forum
Collaborative thinking for business excellence.

Join us as we take collaboration to a higher level. It's a rare opportunity for
CEOs and CFO's to interact, network and share ideas. All in a world-class setting.
register call 1-800-510-2901 or www.businessweek.com/cfocio

ed by

Sponsored by

With support from

Grow-Hill Companies

hosted by Enterprise Florida

 **BearingPoint**

 **MERCURY
INTERACTIVE**

 **VERITAS**

 **sas**

 **RHR**
THOMSON

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABC (DIS) 85
Alcoa (AA) 41
Alltel (AT) 77
Amazon.com (AMZN) 20, 65
American Electric Power (AEP) 86
American Mutual Funds 77
AmSouth Bancorp (ASO) 77
AOL Time Warner (AOL) 12, 72, 78
Apple Computer (AAPL) 10
Artisan Partners 78
Astor Asset Management 78
AT&T (T) 36, 40
Autodesk 36
Automotive Industry Data 54
Aydon 86

B

Bank of America (BAC) 53
Bank of New York (BK) 41
BASF (BASFY) 60
Bear Stearns (BSC) 86
Bed Bath & Beyond (BBBY) 78
Berkshire Hathaway (BRK) 83
Best Buy (BBY) 84
BMW 54, 72
Boeing (BA) 62
Bombardier 62
BP (BP) 55
Bristol-Myers Squibb (BMY) 41

C

Cisco Systems (CSCO) 36, 65, 78
Citigroup (C) 12, 14
Citizen Watch 68
CNBC (GE) 20
Colgate-Palmolive (CL) 12

Comair 62

Condé Nast 72
Conseco (CNC) 12
Cornell Capital Management 78
Cray (CRAY) 78
Credit Suisse First Boston (CSR) 41, 59
CVS (CVS) 77

D

Dannon (DA) 72
Dan River (DRF) 85
Delta Air Lines (DAL) 62
Deutsche Bank (DB) 59
Dollar General (DG) 78
DRS Technologies (DRS) 86
DuPont (DD) 60

E

eBay (EBAY) 65
ECC International (ECC) 86
Eli Lilly (LLY) 60
Elpida Memory 69
Embraer 62
Enron (ENRNQ) 41, 56, 86
European Aeronautics Defence & Space 53

F

Fidelity Low-Priced Stock Fund (FLPSX) 77
Fisher Scientific (FSH) 12
Ford (F) 12, 85
Fossil (FOSL) 68

G

Gateway (GTW) 41
General Electric (GE) 62
Giant Food (AHO) 53
Global Insight 54
Goldman Sachs (GS) 10, 40, 59
Greycourt 37
Gruner+Jahr 14

H

Hard Rock Cafe (RANKY) 10
Harley-Davidson (HDI) 86
Hecla Mining (HL) 85
Helios Group 72
Hitachi (HIT) 69
Honda (HMC) 84
HVB Group 53
Hynix Semiconductor 70
Hyundai Securities 70

I

IBM (IBM) 72
Infineon Technologies (IFX) 70
Information Resources 72
ING Group (ING) 53
Intel (INTC) 36, 41
Interpublic Group (IPG) 72
Investment Company of America Fund (AIVSX) 77

J

Johnson & Johnson (JNJ) 78
J.P. Morgan Chase (JPM) 41
Jupiter Research (JUPM) 68

K

Kang & Lee Advertising 10
Kunick 78

L

Lazard 68
Lehman Brothers (LEH) 36, 86
Lenzing 53
Leo Burnett USA 72
Lipper Convertibles Fund 10
Loews Cineplex Entertainment 10
L-3 Communications (LLL) 86
Lufthansa (DLAKY) 62

Lukoil 55

M

Mandalay Resort Group (MBG) 41
Mason Hill Asset Management 78
McGraw-Hill (MHP) 81, 88
Merrill Lynch (MER) 41, 53, 59, 86
MGM Mirage (MGG) 41
Micron Technology (MU) 69, 70
Microsoft (MSFT) 20, 36, 68, 78
Mindjet 20
Mitsubishi Electric 69
Möbius Group (CKFR) 78
Moody's Investors Service (MCO) 86
Morgan Stanley (MWD) 53, 59
Morningstar 58, 78, 80

N

National City (NCC) 77
National Semiconductor (NSM) 68
NBC (GE) 62
NEC (NIPNY) 69
Nelson's Investment Manager 78
Netscape (AOL) 20
Network Appliance 36
Newell Rubbermaid (NWL) 77

O

Oracle (ORCL) 36

P

Pechiney (PY) 53
PepsiCo (PEP) 72
Pershing (CSR) 41
Petroleum Finance 55
Phila Suburban (PSC) 77
Pioneer (PIO) 69
Pitney Bowes (PBI) 77

PPG Industries (PPG) 77
Pratt & Whitney (UTX) 62
PRTM 53
Prudential Securities (PRU) 62

Q

Questar (STR) 77

R

Raymond James & Associates (RJF) 62, 86
Renault 53
Renesans Technology 69
Riedel Crystal 82
RiskMetrics Group 77
Rohm & Haas (ROH) 32
Rolls-Royce (RYCEY) 54, 62
Royal Ahold (AHO) 53
Royal Dutch/Shell Group (RD) 55
RPM International (RPM) 77

S

Safeway (SWY) 77, 78
Samsung Electronics 69, 70
Sara Lee (SLE) 77
Sequoia Fund (SEQUX) 78
SG Cowen Securities 41
Smith Breeden Associates 37
Snecma 62
Sony (SNE) 72
Spiegelau 82
Standard & Poor's (MHP) 77, 81, 88
Steel Partners 86
Sterling Johnston Capital Management 78
Stop & Shop (AHO) 53
Strategic Solutions Group Consulting 72
Strong Capital Management 78

Sun Microsystems (SUNW) 68
Suunto 68

T

Taco Bell (YUM) 7
Taechang 44
TBWA/Chiat/Day
Teal Group 62
Texas Instruments (TXN) 69
Thomas Weisel Partners 36
Toshiba (TOSBF)
Toys 'R' Us (TOY)
T. Rowe Price Equity Income Fund (PRFDX) 77
T. Rowe Price Growth (TROW) 78
T. Rowe Price Tax-Efficient Balance Fund (PRTEX) 37

U

UBS Warburg (UB) 36, 41
UNICER 53
United Airlines (U) 62
Universal McCann
US Airways Group 62

V

Vanguard Group 5
Volkswagen (VLK) 54
Vornado Air Circulation System 77

W

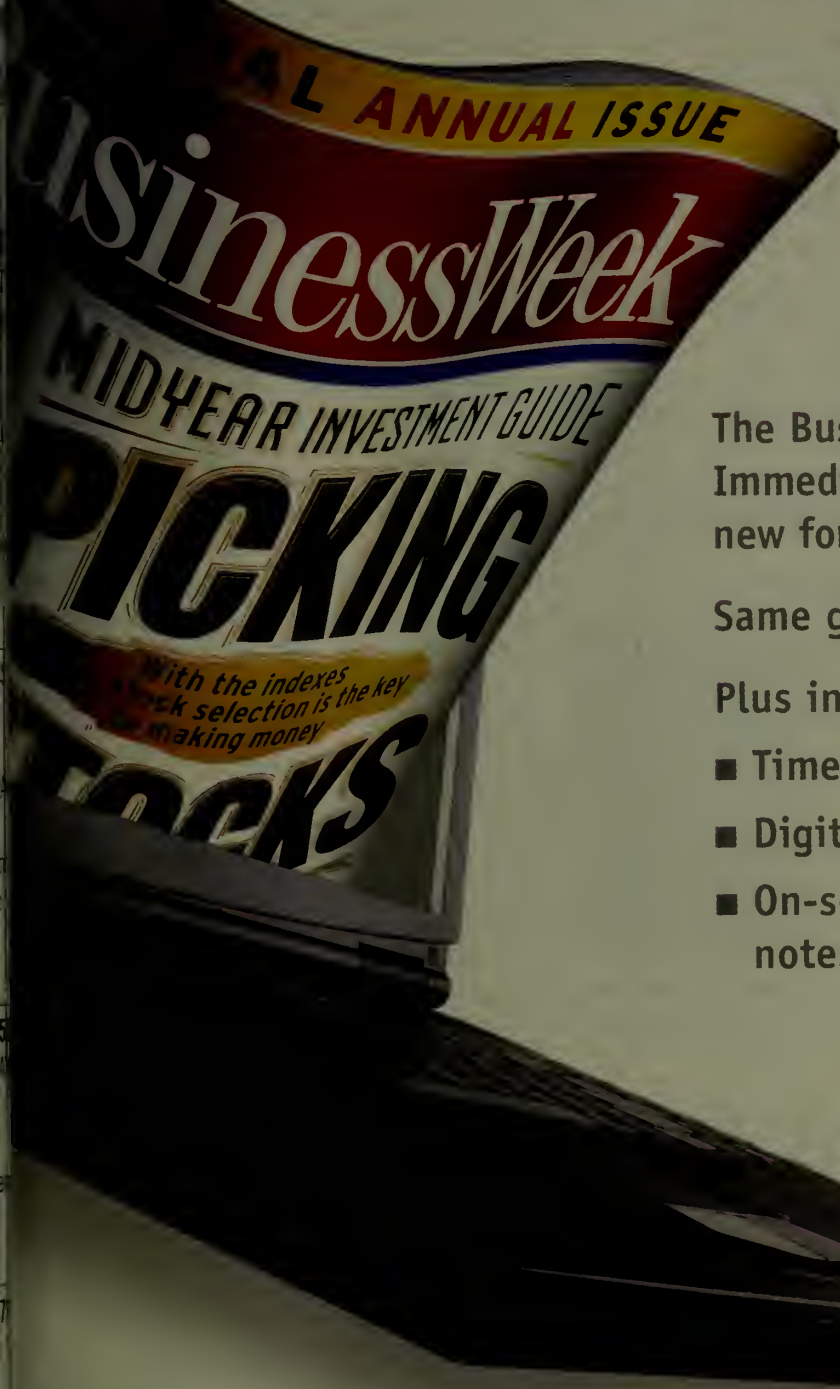
Walgreen (WAG) 7
Walt Disney (DIS)
WL Ross 32
WorldCom (WCOE) 40, 56, 85, 86

Y

Yanjin 10
YUM! Brands (YU) 72

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$59.97/year; Canada: CDN \$94.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Canada Post Publication Mail Agreement Number 4007. Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO. 80322.

It's not just what you know,
it's when you know it.



The BusinessWeek Digital Edition.
Immediate delivery in a convenient
new format.

Same great content, same great design.

Plus interactive features:

- Time-saving keyword search
- Digital archive for fast reference
- On-screen highlighter and notes capability

CURRENT
SUBSCRIBERS:
GO DIGITAL!
CONVERT
FREE NOW!

Free Trial!

Sample BusinessWeek electronically.
Visit www.businessweek.com/digital.
Call 888-878-5151 for more details.

THE BUSH TAX PLAN: PRETTY GOOD BUT...

Do mobility and prosperity trump inequality in today's America? If your answer is "yes," you're going to like President Bush's bold new tax plan. If not, you're apt to join the chorus crying "class warfare." For the heart of the Bush plan, eliminating taxes on corporate dividends paid by individuals certainly tilts toward the investor class over the working class. But in doing so, it could also lower the cost of capital, encourage innovation and investment, promote faster economic growth, and reduce poverty.

Lest we forget, that's precisely how the New Economy worked in the prosperous '90s. A rising stock market generated high rates of capital spending and innovation which produced fast, noninflationary growth, a lot of wealth, and record-low unemployment. Real wages rose and poverty fell for most of the decade. Dividends, interest, and capital gains income became much more evenly distributed as a growing investor class fueled the stock market.

Despite the recession, a wave of corporate fraud, and September 11, continued strong productivity growth shows that we're still in such a dynamic period. It may sound un-PC to say, but if the Bush tax plan gets the economy back on track and growing at its potential, increasing inequality may be a reasonable price to pay for reducing poverty. Does it matter if the rich get richer as long as the poor and the working class get richer, too?

But can the Bush plan work if passed by Congress? We think it has a good chance. For one thing, the first and second years of the \$674 billion 10-year plan are front-loaded with traditional tax cuts designed to stimulate demand. At least \$50 billion to \$75 billion and as much as \$100 billion could be pumped into the economy this year, enough to raise the growth rate of

GDP by $\frac{1}{2}\%$ to $\frac{3}{4}\%$. Here's how the numbers could add up: Cuts on marginal income tax rates scheduled for 2004 and 2006 are made retroactive to Jan. 1, 2003. That would be good for \$40 billion this year. Accelerating the child tax credit and relief from the marriage penalty would pump in another \$25 billion. The Bush plan includes extending unemployment benefits, and that could inject an additional \$10 billion. The dividend cut itself is good for adding about \$25 billion, and should spark a strong stock market rally, the resulting wealth effect could send billions of additional dollars into the economy.

The danger is that the Bush plan sends too many dollars into the economy. With interest rates at record lows and money pouring out of Washington for the military, there is a lot of stimulus surging through already. The Bush tax package could overheat the economy by 2004, putting pressure on the Fed Reserve to raise rates. The proposal will also send the federal budget deep into the red for years to come. Supply-siders say it doesn't matter because there is no connection between deficits and interest rates, and higher growth will pay for much of the deficits anyway. Deficit hawks disagree. In truth, there is no economic theory or body of data to prove either case. That worries us. The '80s supports the supply-side case. But the '90s backs up the deficit hawks. We prefer to be prudent and focus on maintaining a balanced budget over time. So, we suspect, would the Fed. Closing corporate loopholes, as the tax plan begins to do, would restore some revenues. So would cutting back on the huge farm subsidy.

The Bush tax plan is Reaganesque in its bold attempt to simplify the tax code and lower rates. After three years of desultory economic performance, it's one good way to just start the New Economy.

A PRAGMATIC OVERTURE TO PYONGYANG

By many measures, North Korea is an even greater threat to the U.S. and the world than Iraq. It is a failed Stalinist state with a collapsing economy financed by exports of illegal drugs, counterfeit currency, and Scud missiles to anyone who will pay—including, perhaps, terrorists. Its dictatorial ruler, Kim Jong Il, the son of a previous dictator, has lied about developing nuclear weapons and now threatens war in a desperate attempt to get food and oil for his country. There's not much to like about North Korea, and President George W. Bush has made it clear from the start of his Administration that he wants regime change in this member, too, of the "axis of evil."

But his options are severely limited. Starving North Korea into submission could result in the sale of missiles and nuclear weapons to terrorists or the unleashing of its military against South Korea. Preemptive military action could easily do the same. The Administration's announcement that it will resume a

formal "dialogue" with Pyongyang is the right move. So is the effort to enlist South Korea, Japan, and China in restraining the north. The immediate goal is to offer economic aid in exchange for opening the country to full and permanent inspection and surveillance of all nuclear facilities. The long-term goal should be to open the economy to investment and pave the way for a "soft landing" when the system collapses.

President Bush's hard line against North Korea when he took office may have provoked Kim to reveal that his country had secretly been building a bomb throughout the '90s. But by abruptly halting diplomatic talks in 2000, labeling North Korea a member of the demonic axis, and talking of preemptive strikes, Bush also helped fuel the current crisis. At the same time he alienated a once-close ally, South Korea, by publicly rejecting the South's own dialogue with the North when its Prime Minister was in Washington on a state visit. Bush's best pragmatic approach is the best of all bad options.



From Airbus to Zygo, we've helped over 33,000 companies around the world win with great products. Here are just a few.

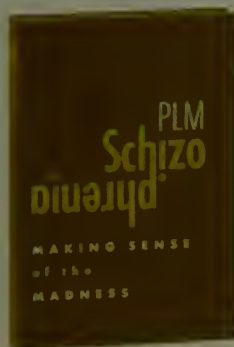


Given that your company's future depends on its implementation of PLM, wouldn't it be nice to know what PLM is?

Ask ten people what PLM is and you're likely to get eleven different answers.

It starts off simple enough. "PLM" stands for Product Lifecycle Management, which basically means managing the development of products from concept to retirement. But building a framework that delivers on the value of PLM? That's where you have to make some important choices.

Our approach to PLM is based on a single-minded focus of helping our



Get the straight talk on PLM with this insightful book.

customers create and sustain value with great products.

(What we call Product First.)

A focus that has resulted in tens of thousands of products that provide measurable and repeatable results. Because great

products drive every measure of business success — from growth, to profits, to customer loyalty.

So while the term PLM may create confusion, the need to create and deliver great products has never been clearer.

Get your free copy of PLM Schizophrenia at www.ptc.com/go/bw or call 1-888-782-3776, ext. 103.

 **PTC**
The way to Product First™





Business Week
January 27

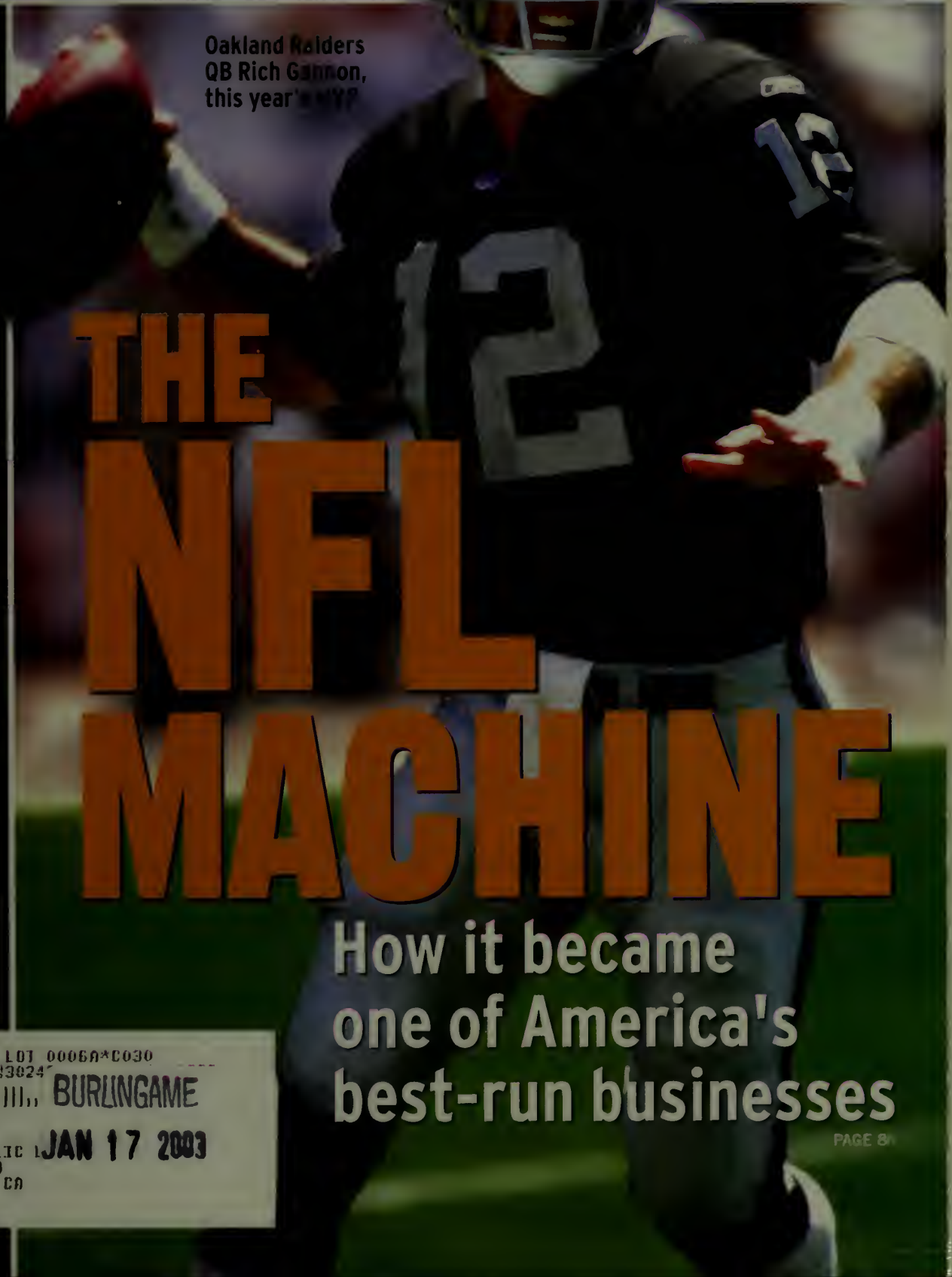


3 9042 05548988 1

Business Week

27, 2003

www.businessweek.com



Oakland Raiders
QB Rich Gannon,
this year's MVP

THE NFL MACHINE

How it became
one of America's
best-run businesses

PAGE 8

L
STING
T?
FIXABLE
NESS?

LL
REET
ARE OF
ARCH
HIRE

TOROLA
IT STILL
BIG IN
IA?

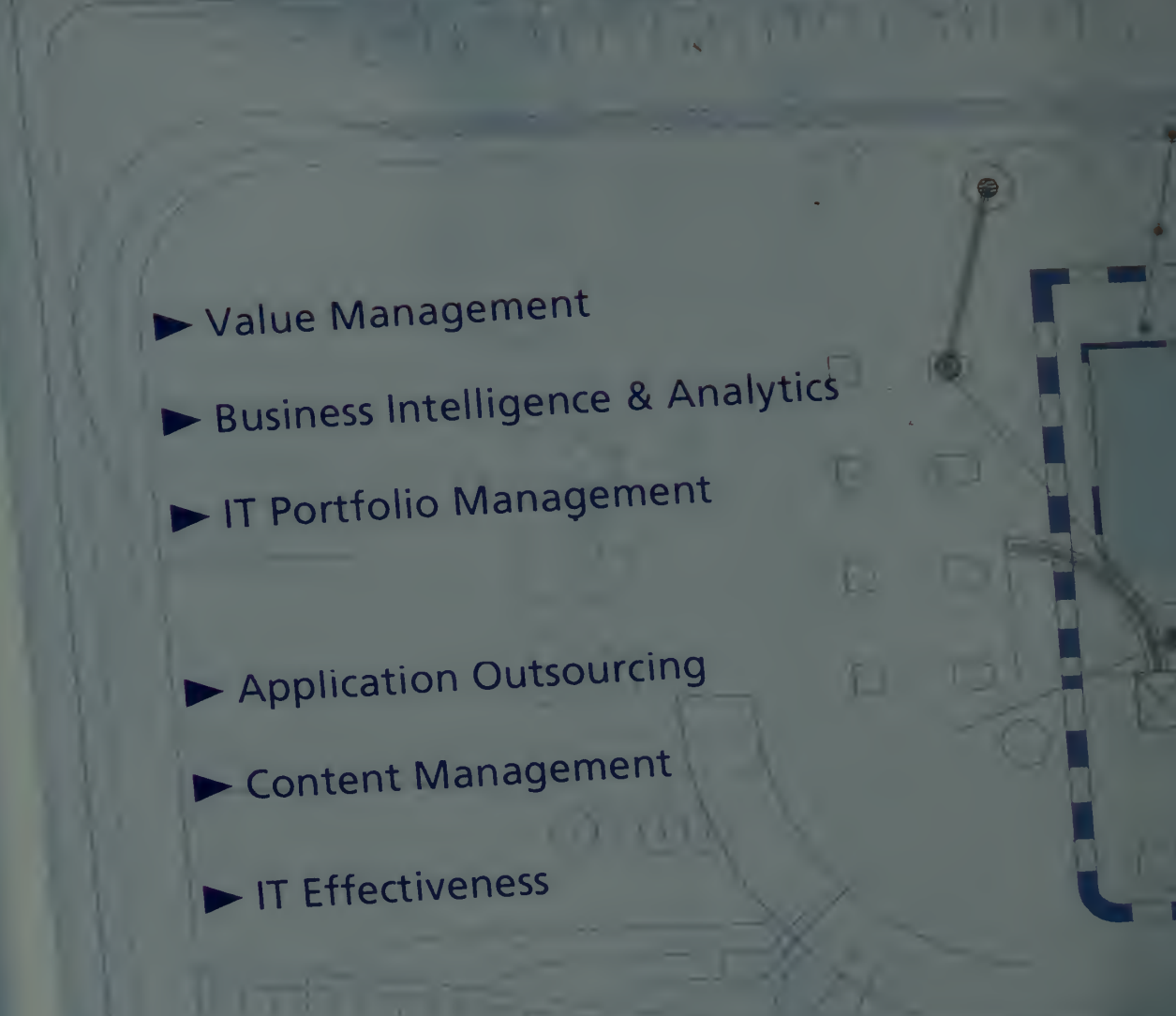
KIC
STE
THE MOB
JOINING
Y

#BXBBDD ***CR LOT 0006A*030
#LBRLP000097 1#3024

BURLINGAME

BURLINGAME PUBLIC JAN 17 2003
480 PRIMROSE RD
BURLINGAME CA

Keyword: BW

- 
- ▶ Value Management
 - ▶ Business Intelligence & Analytics
 - ▶ IT Portfolio Management
 - ▶ Application Outsourcing
 - ▶ Content Management
 - ▶ IT Effectiveness

Page: _____ Date: _____
ROI/Value Management

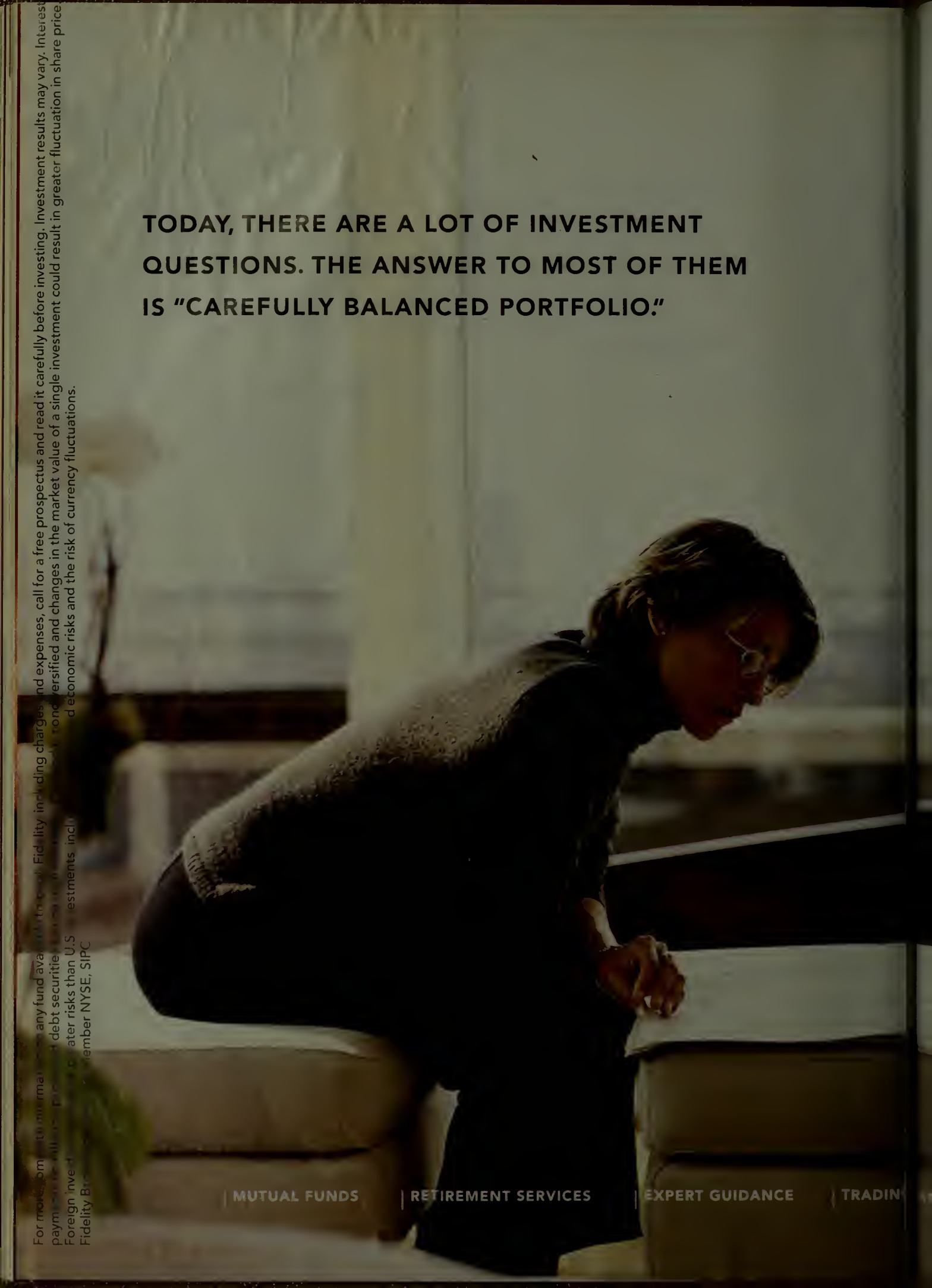
DATE DUE

- 
- ▶ IT Infrastructure Solutions
 - ▶ High-Availability Servers
 - ▶ Mission Critical Managed Services
 - ▶ Resource Optimization Solutions


FUJITSU

THE POSSIBILITIES ARE INFINITE

us.fujitsu.com

A woman with blonde hair and glasses, wearing a dark, textured sweater, is leaning over a white railing. She is looking down and slightly to the right. In the background, a city skyline is visible under a hazy sky. The overall tone is contemplative and professional.

**TODAY, THERE ARE A LOT OF INVESTMENT
QUESTIONS. THE ANSWER TO MOST OF THEM
IS "CAREFULLY BALANCED PORTFOLIO."**

For more information on any fund available through Fidelity, including charges and expenses, call for a free prospectus and read it carefully before investing. Investment results may vary. Interest payments will be made quarterly. Foreign investments include U.S. investments and economic risks and the risk of currency fluctuations. Fidelity Brokerage Services Member NYSE, SIPC

MUTUAL FUNDS

RETIREMENT SERVICES

EXPERT GUIDANCE

TRADING

Successful investing has always been about asking the right questions. And choosing the right people to help you answer them has never been more important.

Right now, no one has more ways to help you find the answers than Fidelity. For over 50 years, we have consistently offered investors like you the tools, the insight, and the unbiased guidance for making smart, more informed investment decisions.

If today's market teaches anything, it's the importance of having a balanced, risk-controlled portfolio. At Fidelity, that's always been our belief, regardless of markets.

That's why we have always offered the full range of investment solutions. Not just the equity funds we're known for, but a variety of solid funds with reduced risk to help you achieve your goals.

There will always be questions about something as critical as planning your future. But the most important question of all is: who can best help you find the answers? Talk to one of our investment specialists today.

Because you're not just invested.
You're **personally invested**.SM

**FIDELITY INFLATION-
PROTECTED BOND FUND.**

Are you concerned about inflation eroding your purchasing power? This fund offers you a high credit-quality bond fund with the added benefit of built-in inflation protection. Fidelity.com/goto/finpx

**FIDELITY GROWTH & INCOME
PORTFOLIO.** Considering a more balanced approach to equity funds? This growth and income fund is a core portfolio holding, focusing on income and capital appreciation. Fidelity.com/goto/fgrix

**FIDELITY DIVERSIFIED
INTERNATIONAL FUND.** Looking for a way to expand your investment horizons? With 76% of all publicly traded companies outside the U.S., this fund allows you to pursue opportunities in overseas markets. Fidelity.com/goto/fdivx

Singapore Airlines presents

SPACEBED

The biggest bed in Business Class.

SpaceBed is being progressively installed on all flights from North America to be completed by June, 2003.

For information, fares and bookings please visit www.sia-spacebed.com





Experience the comfort of the most spacious business class bed in the sky. Raffles Class SpaceBed offers you a new level of luxury with more room to work, relax or sleep. All, of course, while enjoying the inflight service even other airlines talk about.

A great way to fly
SINGAPORE AIRLINES



A STAR ALLIANCE MEMBER



When you stay in a box, does it stay with you?™



TheHiltonFamily™

Hilton HHonors®
Points & Miles

If your hotel room isn't all there, chances are your powers of persuasion won't be either. If you're traveling to make the sale, you need space to focus. That's why at Embassy Suite



guaranteed a spacious two-room suite. It's the kind of space you don't get in most other
but it's exactly the kind of space you deserve. Visit our web site or call 1-800 EMBASSY.



EMBASSY SUITES
HOTELS®

embassysuites.com

COVER STORY



**THE
COMMISH**

THE NFL MACHINE

Behind a thrilling season is a hard-nosed business run with military precision that has leveled the playing field

page 86



BusinessWeek

JANUARY 27, 2003

Cover Story

86 THE NFL MACHINE

Could things be going any better for the National Football League and Commissioner Paul Tagliabue? With a new \$2 billion satellite-TV deal, an \$18 billion network and cable contract, 20 new stadiums built in the last decade, and harmony between players and owners, it's hard to imagine how. But ahead are tricky negotiations with media giants socked by a stubborn ad slump

91 THE NFL AND THE UNION: COZY

A chat with NFL Players Assn. Chief Gene Upshaw

94 L.A. FOOTBALL: FIRST AND TEN

The NFL wants pro ball to return

News: Analysis & Commentary

32 TAXES: A WHOLE NEW BALLGAME

The Bush plan could reshape corporate finance

34 KEEP STUFFING THAT 401(k)

Even if dividend taxes die, you'll do better in tax-advantaged accounts

35 GET GOING, GREEN EYESHADES

The Bush plan's complexities will keep corporate tax specialists busy

36 COMMENTARY: AOL IS TOAST...

The '90s icon isn't going anywhere

37 COMMENTARY:...NO IT'S NOT

It could still turn things around

38 COMMENTARY: SUVs

Those TV ads won't sway owners

39 THE SEC'S NEW RULES

How it might lower the boom

39 ACCOUNTING WATCHDOGS

The oversight board is worth its pay

40 COMMENTARY: HOME DEPOT

GE-style fixes haven't worked

40 A TECH SECTOR'S HAPPY HOLIDAY

Storage companies got a gift

42 SEGWAY IS SPUTTERING

The scooter's woes are many

44 IN BUSINESS THIS WEEK

International Business

46 ITALY: THE ECO-MAFIA

The mob has dumped battery acid, lead, mercury, and more on vast tracts of farmland and parks. And they've made billions doing it

50 ARGENTINA: THE ECONOMY

The devalued peso spurs exports and wins back some outsiders

51 INTERNATIONAL OUTLOOK

An Israel-Palestine glimmer of hope?

Economic Analysis

22 ECONOMIC VIEWPOINT

Garten: Institutional investors to speak up on corporate gov

29 BUSINESS OUTLOOK

U.S.: Despite rising jobless shoppers may keep shopping
Spain: Outgrowing its neigh

Government

45 WASHINGTON OUTLOOK

African-American anger spa
Lott doesn't hurt just the G

52 COMMENTARY: THE DRAFT

Yes to compulsory national service—but not because bla
overrepresented in the milit

Legal Affairs

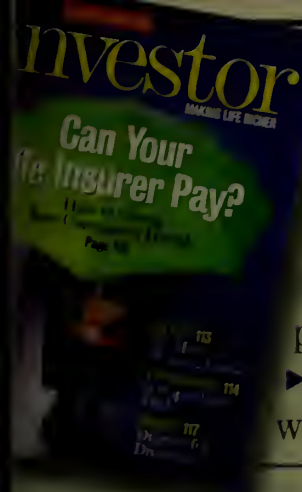
54 COMMENTARY: THE SEC

Calm down, counselors: The proposed whistleblowing reg harm attorney-client privile

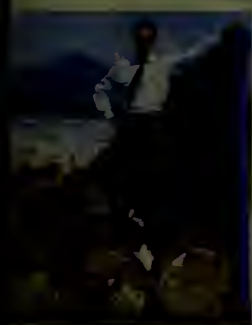
Mutual Fund Scoreboard

56 SPECIAL REPORT: EQUITY F

BusinessWeek's A-rated ma
prove patience is a virtue



- Your policy's vital signs page 110
- Farsightedness: Future fixes page 113
- Hosting football party animals page 114
- Dividend stocks worth holding page 117



NIGHTMARE
The Mafia is
g Italy—and
g billions page 46

**AOL'S
FUTURE**
It either
has
none...



...OR
rebound
prospects
look good
page 36



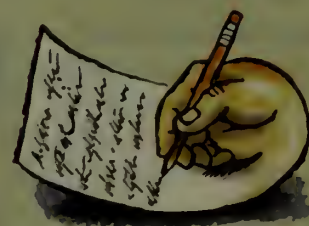
**DIVIDEND
DRAMA**
CFOs are
having to
rethink their
priorities
page 32



EQUITY FUNDS
BusinessWeek's
A-rated picks
page 56



**SELL
PHONES**
Motorola
scrambles to keep its
lead in China page 98



STOCK RESEARCH
The paid-for kind is
barely regulated—
and apt to grow page 82

ING THE STREET'S ATTENTION
d-for research is on the rise as
apped brokerages cut their
lysts' ranks
MENTARY: WALL STREET
re trading means more risk, but
estors need more information

ing Life

MENTARY: PAYCHECKS
re wives are outearning their
uses—and loving it

Issues

MENTARY: DIVERSITY
porate America is speaking up:
irmative action in college
missions is good for business

ation Technology

LDSTROM: TECHNOLOGY & YOU
rosoft's new "Smart Display"
t—yet. But it's still a great idea
MOTOROLA NEEDS CHINA
e phone maker, otherwise
uishing in the red, is a mainland
der—but competitors are gaining

Science & Technology

- 101 DEVELOPMENTS TO WATCH**
How your car can help in a skid;
biodiversity and Lyme disease;
microbes may be oil producers
- 102 WHAT'S NEXT FOR THE NAVY**
Smaller, faster, stealthier vessels
are the wave of the future

The Corporation

- 103 LAB WORK AT DUPONT**
Its push for new products

Management

- 105 COMMENTARY: ETHICS**
How B-schools can prove they
mean buusiness

BusinessWeek Investor

- 109 DIVIDENDS**
401(k)'s; beating the S&P; kids and
flouride; video gear; making a will
- 110 NO ONE'S INSURING YOUR POLICY**
If your insurance company is in bad
health, think about moving on

- 112 BEHIND AN INSURER'S RATING**
Not all grading systems are alike
- 113 NO MORE READING GLASSES?**
New treatments for farsightedness
are under development
- 114 A SUPER BOWL PARTY PLAYBOOK**
Entertaining the football freaks
- 114 LET'S GO TO THE HOPS**
There's a variety of winter beers
- 116 EATING FISH TONIGHT? GO WILD**
The free-range variety tastes
better—and it's better for you
- 116 WELCOME TO XM RADIO**
Now, you can try it at home
- 117 THE BARKER PORTFOLIO**
How to find a dividend payer
- 118 MARCIAL: INSIDE WALL STREET**

Features

- 12 UP FRONT**
- 16 READERS REPORT**
- 16 CORRECTIONS & CLARIFICATIONS**
- 18 BOOKS**
Frum: *The Right Man*
- 120 FIGURES OF THE WEEK**
- 122 INDEX TO COMPANIES**
- 124 EDITORIALS**

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

BusinessWeek online

Free to Subscriber

Go to www.businessweek.com and follow the instructions to register. Be sure to have the account number that appears on your BusinessWeek mailing label.

Updated every business day at www.businessweek.com

50

Visit the BusinessWeek 50 area of our site for news, investing tools, and more at

www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

NUMBERS CRUNCH:

Post-Enron, the economics-consulting business is busier than ever, says Martha Samuelson of Analysis Group



APPLIED WISDOM:

Applied Materials CEO James Morgan discusses his views on managing tech companies



TOOLS

YOUR PORTFOLIO:

Check on the health of your investments



STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



MBA SEARCH: Which is the right business school for you and your needs?



INTERACTIVE FORUMS

Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

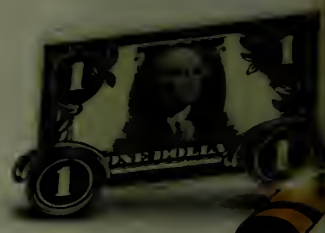
Put us on your hand-held! Get news from Daily Briefing, S&P data, and more. Visit AvantGo.com to sign up



Find quick links to everything on this page at the Jan. 27, 2003, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/03_04/online.htm

Speed Bumps

Despite widespread investor optimism, the growth momentum profits gained for three straight quarters in 2002 isn't likely to keep up its pace in the first part of 2003. Blame slack corporate spending and war worries



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

Q&A: Says Renault CEO Louis Schweitzer: "The alliance with Nissan has delivered faster than I expected..."

In fact, it helped Renault through a rough patch in '02



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Street Wise: When it comes to investing in Korea, the managers of the successful Matthews Korea fund remain bullish, despite war jitter

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

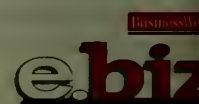
Government: The President had barely finished laying out his tax-cut proposal before small-business advocates were trading partisan shots



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

The 2003 Consumer Electronics Show proved that the digital revolution is alive and well



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

Tools: Use our B-Schools Calendar to keep informed of coming events at schools in the U.S. and around the world

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

Q&A: El Salvador Economic Minister Miguel Lacayo discusses the links between free trade, development, and democracy

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Newsmaker Q&A: William Ezzell discusses his efforts as the AICPA's "restoration chairman" to polish the accounting profession's image

BusinessWeek tv

TUNE IN THIS WEEKEND FOR:

Cable rates on the rise

How healthy is your insurance company?

The latest in CD burners



WHY NOT TURN YOUR DATA CENTER INTO A PROFIT CENTER?

A data center doesn't have to be a black hole, where dollar bills disappear and are never seen again. Servers don't have to be deployed in ways that utilize less than 20% of their computing capacity. Every application doesn't have to exist on its own dedicated server. And every server doesn't need three people to manage it.

Companies shouldn't have to spend 80% of their data center budgets on administration. Millions of dollars "invested" in operations, consulting and services that supposedly make the data center work.

At Sun, we're not simply trying to "manage" the complexity. Or more precisely, to get rich off the complexity. Our goal is to eliminate it. To innovate new services, software and systems that drive costs down while dramatically reducing complexity.

That's why Corporate Express turned to Sun, a move that saved \$10,000 per day in operating costs by consolidating 43 servers onto two Sun Enterprise™ 10000 servers. And why other companies are using Sun's mainframe rehosting solutions to save up to 70% of their annual IT operating costs.

These companies rely on Sun for cost-reduction strategies that ultimately lead to more streamlined, easier-to-manage data centers. Data centers that free their IT staff from the daily management of individual servers, and allow them to refocus on the task of turning information and network infrastructure into a strategic advantage.

If your data center is sucking more money from the bottom line than it's adding to the top line, it's time to turn things around. It's time to reestablish your data center as a competitive weapon. As the means by which you improve customer experiences and relationships, deliver new loyalty-driving services and maximize efficiencies throughout your company.

In short, it's time to reinvent the data center. And the first step is to call Sun.

Register for a free on-site consolidation assessment from
the Sun Services team at **SUN.COM/WHYNOT**



SYSTEMS	SOFTWARE	SERVICES	STORAGE
---------	----------	----------	---------

Up Front

EDITED BY SHERIDAN PRASSO

**CARTER:
NO DOUBLE TAXATION**



REAPING DIVIDENDS

BUSH'S LEGACY FROM CARTER

PRESIDENT BUSH LIKES TO hark back to the tax-cutting legacy of Ronald Reagan. But when it comes to ending double taxation of dividends, he would be more accurate to cite another President: Jimmy Carter. In 1977, his first year in office, the Democrat pushed to end or at least curtail the double taxation. He would have done it in a way

that tilted benefits toward lower-income brackets. The plan died a slow death in Congress.

In contrast, tax laws passed under President Reagan actually intensified double taxation of dividends. The Tax Reform Act of 1986, while sharply cutting income tax rates, ended the exclusion of the first \$100 of dividends from tax liabilities.

So will Bush now start citing Jimmy Carter in selling his economic plan? Don't bet on it. *Peter Coy*

POLITICAL LIFE

A LITTLE HEAT ON SNOW

A SURE-TO-BE-CONTENTIOUS issue in the Jan. 28 confirmation hearings for Treasury Secretary nominee John Snow: His company, railroad giant CSX, didn't pay any federal income taxes for two of the years when he sat at the controls.

CSX took deductions on depreciation of capital investments relating to its acquisition of Conrail and didn't pay taxes in 1998 and 2001, says spokesman Adam Hollingsworth. Indeed, Uncle Sam refunded CSX more than \$50 million in each of those years.

While this is not unusual

for capital-intensive companies, some lawmakers feel it's unseemly for a Cabinet official. Watchdog group Citizens for Tax Justice director Robert McIntyre says it makes Snow a "corporate freeloader." CSX counters that it paid taxes 9 out of the 11 years that Snow was the chairman.

The issue may spark fireworks, but it's unlikely to derail the nomination. Insiders say that Snow has been charming members of the Senate Finance Committee behind the scenes.

"While we're not taking anything for granted, we've not been made aware of any serious concerns with his confirmation," reports Treasury spokesman Rob Nichols. *Laura Cohn*



NOMINEE:
Avoiding tax

WHEELER-DEALERS

LIPPER: 'LOOKING OUT FOR HIS FRIENDS'?

KENNETH LIPPER, THE MONEY manager who lost millions running a hedge fund for the rich and famous, may have been looking out for himself, his family, and at least one friend at others' expense.

This allegation is made in a lawsuit filed on Jan. 3 in a federal court in South Carolina by the blind trust of Senator Ernest "Fritz" Hollings (D-S.C.). Lipper announced in February, 2002, that Lipper Convertibles had lost 40%, or \$315 million, of its value. The complaint states: "Remarkably, in January, 2002, prior to

Lipper's February announcement, Ken Lipper, through Lipper Holdings, had already withdrawn \$3.15 million from his own capital account."

Lipper's pal Mortimer Zuckerman, chairman and editor-in-chief of *U.S. News & World Report*, allegedly withdrew \$12 million in January, 2002, according to the lawsuit,

which claims: "Lipper was viously looking out for friends." And, it charges, Lipper's four daughters made a withdrawal of about \$300

each in November, 2001, and one took out an additional \$270,000 the following month. At the time, Lipper daughter Daniella Lipper Co. worked for her father as a research analyst.

Speaking for Lipper company executives, Biderman says the lawsuit has no merit. The \$3.15 million says, was withdrawn in anticipation of earning year-end income and was later repaid. Biderman doesn't deny the daughters took

money but says other Lippers added funds. Zuckerman says all decisions were made by his

financial adviser. As *BusinessWeek* reported in "The Fallen Financial" (Cover Story, Dec. 9), Lipper & Co. was forced to liquidate its funds. The Securities Exchange Commission and other regulators are still investigating. *Marcia Victor*



**JOINED AT THE
WALLET? Chums**
Lipper (top) and Zuckerman

THE LIST FREE SPEECH



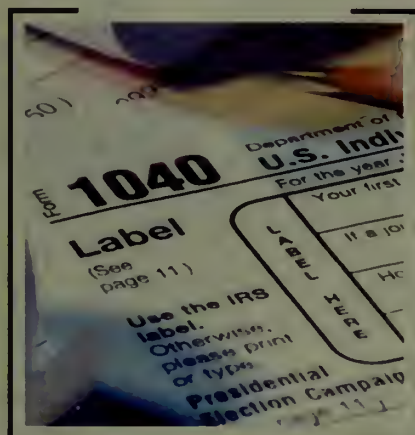
The American Dialect Society is out with its Word(s) of the Year. It also picks words most likely to make it into the lexicon and other notable categories. Here are the winners.

YEAR	WORD(S) OF THE YEAR	MOST LIKELY TO SUCCEED	MOST CREATIVE
2002	WEAPONS OF MASS DESTRUCTION	blog	Iraqnaphobia
2001	9-11	9-11	shuicide bombe
2000	CHAD	muggle	dot-bomb
1999	Y2K	dot-com	cybersquat
1998	e-	e-	multi-slacking

Data: American Dialect Society

A PERSPECTIVE ON TAX-FREE INVESTING

36 WAYS TO SAVE ON TAXES.



Franklin Templeton offers 36 different municipal bond funds designed to provide you with tax-free income while preserving your capital.[†] Including a double tax-free income opportunity for every

*Keep more of what you earn
with the tax-free leader.*

As the nation's largest tax-free mutual fund manager, our advice is often sought on the structuring of municipal bond offerings. Because we review more than 1,500 new debt issues every year, we

Franklin Tax-Free Income Funds

NATIONAL
TAX-FREE FUNDS

STATE-SPECIFIC
TAX-FREE FUNDS

INSURED
TAX-FREE FUNDS

HIGH-YIELD
TAX-FREE FUNDS

resident of the U.S. And you don't have to be wealthy or close to retirement to take advantage of these funds. They can provide strong benefits for most investors in a 27% federal income tax bracket or higher.

possess a unique perspective on the municipal bond market.

To gain more perspective, call us at 1-800-FRANKLIN Ext. F151 or visit our website at franklintempleton.com.



FRANKLIN TEMPLETON
INVESTMENTS

< GAIN FROM OUR PERSPECTIVE™ >

Franklin Templeton Distributors, Inc., One Franklin Parkway, San Mateo, CA 94403 Call for free prospectuses containing more complete fund information, including sales charges, expenses and risks. Please read them carefully before you invest or send money.

[†]For investors subject to federal or state alternative minimum tax, all or a portion of these dividends may be subject to such tax, depending on the fund. Distributions of capital gains are generally taxable.

BWK1/03

Up Front

HAULS OF IVY?

LOOK WHO INFLATED HIS CREDENTIALS

AS CHAIRMAN OF THE NO. 1 online job-search site, Monster.com, Jeff Taylor oversees a database of more than 22 million résumés.

Despite Taylor's expertise

Taylor "has an executive MBA/OPM" from Harvard Business School.

Problem is, there is no such thing. Harvard doesn't offer an executive MBA. The only MBA it awards takes the usual two years—full-time—to earn. According to Harvard spokesman Jim Aisner, what Taylor does in fact possess is a certificate from Harvard's Owner/President Management program, something that requires only three weeks a year for three years—a much less impressive credential.

Taylor, who drew a 2001 salary and bonus of \$950,000, declined comment. Monster spokesman Kevin Mullins acknowledges the error and says "there was no intent to misrepresent." The company, he says, is taking steps to correct it. *Nanette Byrnes*



TAYLOR OF MONSTER.COM: No MBA

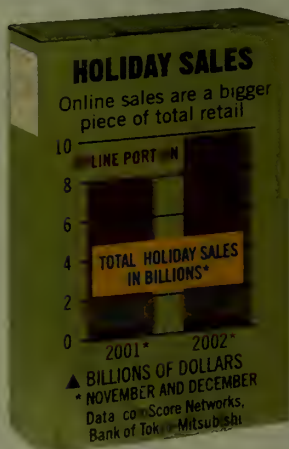
in helping people post their credentials, it turns out that his own are lacking the most important element: accuracy. According to the corporate Web site of Monster's parent company, TMP Worldwide,

I-WAY PATROL

A GREENER CHRISTMAS ONLINE

MALL MERCHANTS WERE ONLY too glad to put this dismal holiday shopping season behind them. But for online retailers, it was a happier story. Final revenue tallies show that online sales jumped more than 20%, to \$9.8 billion, according to tracking service comScore Networks, up from \$8 billion last year. Online sales made up 4.6% of total holiday sales, compared with 3.7% last year.

Slowly but steadily, e-tailers are gobbling up a fatter slice of the retail pie. While



most of the siphoned-away sales come from brick-and-mortar merchants, which still account for more than 90% of sales, catalogers are seeing the biggest changes, analysts say. Take Best Buy and J. Crew. The consumer-electronics merchant sells an estimated \$400 million to \$500 million online, but that only adds up to about 2% of its total sales, says Ken Cassar at Jupiter Research. For J. Crew, catalog sales were flat in December, but online sales rose 24%, to \$26.1 million, accounting for 55%

of direct sales. "There is a huge shift going on," Cassar says. E-tailers, though, don't care whose slice of the pie they get. *Heather Green*

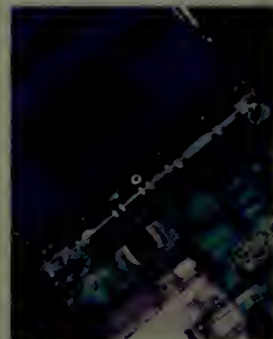
DRAWN & QUARTERED



SECURITY CHECK

FIGHT TERROR, MAKE A BUCK

DOES THE WAR ON TERROR have a silver—or even a golden—lining? A couple of one-time intelligence chiefs think so. Former CIA director James Woolsey and ex-National Security Agency director Kenneth Minihan, both from the Clinton Administration, are doling out multimillion-dollar investments to tech startups that can help shield computer systems from possible terrorist attacks. Minihan, who in 1997 sounded a warning about the vulnerability of Pentagon databases, says current corporate and government firewalls are "the equiv-



LAPTOP: X-ray view

alent of flimsy cockpit door

The former spooks, working with Washington-based private equity firm Palmetto Capital, have raised \$65 million since May for the Homeland Security Fund. Fundees include Arxan Technologies in West Lafayette, Ind., which is working

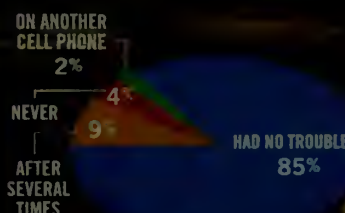
ways to thwart software tampering and piracy, and ClearCloud Technology in Austin, Tex., which can hook the guts of any office full of PCs to a central security server. Clients include BP, Motorola, Stanley, and the U.S. Air Force.

Other VCs are getting into the act, too: Patriot Ventures and Sky Capital Holdings, though they have yet to announce investments. *Andrew F.*

THE BIG PICTURE

FAILURE TO COMMUNICATE

While people say safety is a key reason to buy a cell phone, one in seven calls to 911 on a cell phone won't go through on the first try. Callers connected



Data: Consumer Reports

SURVEY OF 1,880 PEOPLE WHO TRIED TO CALL 911 ON A CELL PHONE WITHIN THE PAST YEAR

Polls, surveys, and other items for consideration in this section should be sent to upfront@businessweek.com



Get 1,000 HHonors bonus points
for booking online from the
comfort of your home.

(No matter what your definition of comfort is.)

Book online and stay by February 28, 2003, to earn 1,000 Hilton HHonors® bonus points.

Just cozy up to hiltonhhonors.com to make your next reservation using your

Hilton HHonors account number. Book online and stay between January 1 and

February 28, 2003, and you'll earn an extra 1,000 HHonors bonus points. It's yet

another simple, convenient and comfortable way to get even more with Hilton HHonors.

hiltonhhonors.com



Must be a member of Hilton HHonors to earn HHonors points. Please allow three weeks after you complete your stay for the online reservation bonus to appear in your HHonors® account. This offer applies to reservations made on the Hilton®, Conrad®, Doubletree®, Embassy Suites Hotels®, Hampton Inn®, Hampton Inn & Suites®, Garden Inn® and Homewood Suites® by Hilton Web sites. The 1,000 HHonors bonus points cannot be earned in addition to any other HHonors points or airline miles online reservations bonus. Hilton HHonors membership, earning of Points & Miles®, and redemption of points are subject to HHonors Terms and Conditions. ©2003 Hilton HHonors Worldwide.

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS: Joyce Barnathan, Frank J. Comes, Robert J. Dowling, Kathy Rebello
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Peter Elstrom, Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Amst, Stephen Baker, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehning, Seymour Zucker (Sr. contributing ed.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.); Michael S. Serrill (Sr. ed.); David Rocks, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe), John Koppisch (Int'l. finance)
ASSOCIATE EDITORS: Robin Ajello, Dan Beucke, Diane Brady, Nanette Byrnes, Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gerry Khermouch, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: Spencer E. Ante. E-Business: Timothy J. Mullane. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowry. People: Susan Berfield. Personal Finance: Lewis Braham, Carol Marie Cropper, Susan Scherrek, Anne Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports Business)
STAFF EDITORS: Jennifer Merritt, Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Aleta Davies, Doug Royalty (Sr.); Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keating, Robert J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.); Jamie Elsis, Edith Gutierrez, Ron Plyman (Asst.). Graphics: Joan Danaher (Director); Rob Doyle (Deputy dir.); Laurel Daunis-Allen, Joe Calviello, Alberto Mena, Ray Vella, Eric Hoffmann. Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), Neal Fontana, Nita Le, Rich Michiel, Leo Nietzer, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne D'Aprix, Kathleen Moore, Andrew Popper, (Assoc.); Sarah Greenberg Morse (Asst.); M. Margarita Eiroa (Traffic mgr.); Burt Hughes, Mindy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.). Karen Butcher, Francisco Cardozo, Thomas R. Dowd, Stephen R. Lebron, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Ilse V. Walton (Edit map mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Y. Steve Ben-Ari, Yo-Lynn Hagood, Steven McCarthy, Anoop Srivastava, Craig Sturges, Mauro Vaisman
ONLINE: Michael Mercurio (Managing ed.), Arthur Eves (Creative dir.), A. Peter Cern, John A. Dierdorff, John Johnsrud, Will Andrews, Heather Barry, Jaime Beauchamp, Jane Black, Joleen Colpa, Roger Franklin, Brian Hinds, Olga Kharif, B. Kite, Matt Kopit, James Kutz, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkover, David Shook, Amy Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksanaj
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad. Boston: William C. Symonds (Mgr.), Faith Keenan. Chicago: Joseph Weber (Mgr.), Roger D. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Berner, Pallavi Gogoi. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), David Welch. Los Angeles: Ronald Grover (Mgr.), Larry Armstrong, Christopher Palmeri (Sr. correspondents); Arlene Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. Hof (Mgr.), Linda Himelstein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O'C. Hamilton, Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.); Rich Miller (Sr. writer); Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. correspondents); Amy Bonus, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Woellert, Catherine Yang, Douglas Harbrecht (Online: Sr. news ed.), Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairbank, Christine Tierney. Hong Kong: Mark L. Clifford (Mgr.), Frederik Balfour, Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Geri Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.), Carol Matlack, Andy Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Ihlwan. Singapore: Michael Shan (Mgr.). Tokyo: Brian Brenner (Mgr.). Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kunii
EDITORIAL SERVICES: Broadcasting: Ray Hoffman, Business Manager: Barbara Boynton. Communications: Heather Carpenter, Christine Fountaine, Andrew Palladino, Nancy Sheed. Information Services: Jamie B. Russell (Director), Susann Rutledge (Research mgr.), John Cady (Technology mgr.), Fred Katzenberg, David Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summerson

THE BIG LESSON OF 2002, TAKE TWO

"What We Learned in 2002" (Editorials, Dec. 30/Jan. 6) was interesting philosophy, but it missed the point of 2002. Yes, the scandals have been the big news item, but they are not the essence of the year. What happened in 2002 was a shift of industrial capital investment from North America to Asia, while American consumer demand was buoyed by low interest rates, tax-rebate liquidity, and soft prices. An economic policy based on stimulating consumer demand may do more for the manufacturing economies of Asia than for domestic capital-goods providers.

An economic policy, to be effective, should analyze the law of comparative advantage and focus investment policy accordingly. We have become neither risk-averse nor overly cautious. What could be higher-risk than a faraway country whose language, politics, and society we neither understand nor fully trust? Rather, as in the past, we will invest for the greatest return, and that is no longer in the domestic market.

Capital is looking for greater returns in rapidly growing markets in places far from home. This is not caution; it is judgment. Neither tax cuts nor lower interest rates will create demand where there is no opportunity for return. The big lesson of 2002 is not corporate governance; it is the shift in economic roles in the global economy.

Ralph C. Deger
Menomonee Falls, Wis.

LETTERS FOR READERS REPORT

We prefer to receive letters via e-mail, without attachments. Writers should disclose any connection or relationship with the subject of their comments. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.
 E-mail: bwreader@businessweek.com

PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carvalho
VP, MARKETING: Patricia Crocker France

CORRECTIONS & CLARIFICATIONS

"Professional services: The help needs" (Industry Outlook 2003, Jan. 13) incorrectly stated that Arthur D. Little closed doors in 2002. The firm declared bankruptcy and was sold to another company but it continues in operation.

"Brainwork from the experts" ("Where to invest," Dec. 30/Jan. 6) overstated the loss of an investor holding a 10-year U.S. Treasury note with a 4% coupon over one year in the market yields rise to 5%. The loss, after interest payments, would be approximately 3.15%, not 25%.

"Stem-cell setback" (Capital Wrapup, Jan. 13) incorrectly reported that the biotech industry had financed a "multimillion-dollar" campaign to allow continued research on stem cells. Biotech and patients' rights groups say they have spent tens of thousands of dollars at most on such lobbying.

APPLAUSE FOR 'THE FINE PRINT'

As a professor of entrepreneurship, I applaud Susan Scherrek's refreshingly pragmatic "How efficient is that company?" ("The fine print," *BusinessWeek* Investor, Dec. 23). Using her "days" approach rather than ratios for management cash enables the entrepreneur—everyone else in the company—to consider the cash-flow implications of decisions they make, whether they are in marketing, operations, or financing. "Days" analysis of the balance sheet should be on every entrepreneur's to-do list at the end of each and every month.

John Mulvey
London Business School
London

The McGraw-Hill Companies

BusinessWeek
 JANUARY 27, 2003 (ISSN 0007-7135) *** 3817

Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948).
 Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127033; Int'l. 236012. U.S. subscription rate: 1 year \$39.97; 2 years \$69.97; 3 years \$119.97. Canadian subscription rate: CDN \$34.95 per year; 2 years CDN \$157.95; 3 years CDN \$189.95. Mexico Subscription 1 year U.S. \$135.00, Brazil 1 year U.S. \$150.00, all other Latin America countries 1 year U.S. \$170.00; 2 years U.S. \$250.00. Outside of U.S., Canada and Latin America: U.S. \$199.00 per year. Single copies/back issues, \$9.95. Call 1-800-268-9967 or email: bwreader@mcgraw.com. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579. Postmaster: Send address changes to *BusinessWeek*, P.O. Box 53235, Boulder, CO 80522-3235. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Canada Post Publication Mail Agreement Number 40012.

VPs, SALES: Mark A. Flinn (Eastern region and BWT), Grant A. (Midwest reg.), Robert J. Maund (West reg.), Lou Tosto (Eastern reg.), VP, INTERNATIONAL/NORTH AMERICA SALES: Rik Gates
VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maraviglia
VP, MANAGING DIRECTOR-ASIA: Alan Lammin
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, CONSUMER MARKETING: Joyce Swingle
VP, BUSINESS DEVELOPMENT: Geoffrey D. Broderick
GENERAL MANAGER, BUSINESSWEEK ONLINE: Peggy White

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, Chairman, President, and Chief Executive Officer; Kenneth M. Vittor, Executive President and General Counsel; Robert J. Bahash, Executive Vice President Chief Financial Officer; Frank D. Pengase, Senior Vice President, The Operations.
PHOTOCOPY PERMISSION: Where necessary, permission is granted the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$2.00 per copy of each article. Send payment to the Copyright Clearance Center, Inc. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address requests for customized bulk reprints to *BusinessWeek* Reprints, 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3148. ISSN 0007-7135/03 PRINTED IN THE U.S.

Lead conversions
at Quick & Reilly
have gone up 50%.

—Donald E. Froude, CEO, Quick & Reilly

Donald Froude believes every customer should feel cared for and valued. A philosophy that's led to successful and profitable results with Siebel's CRM software. With it, Quick & Reilly's employee productivity rose 15%. Lead conversions climbed 50%. Customer retention went up 10%. Cross-selling grew 5%. Further evidence that customer relationships are still a company's best friend.

SIEBEL.

Good service is good business.

To learn more, call 1-800-307-2181 or visit siebel.com/casestudies.

THE RIGHT MAN

The Surprise Presidency of George W. Bush

By David Frum

Random House • 303pp • \$25.95

A BUSHIE WHO DOESN'T DRINK THE KOOL-AID

Being a Presidential speechwriter is sometimes like being a CIA covert operative: The public isn't supposed to know you're responsible for your best work. After all, it's FDR, not the speechwriter, who gets credit for "nothing to fear but fear itself." And JFK penned the famous lines: "Ask not what your country can do for you. Ask what you can do for your country." Right?

Well, of course not. That brings us to David Frum. A White House economic speechwriter from January, 2001, until February, 2002, Frum became famous (or infamous) in Washington social circles after it was reported that his wife had sent out an e-mail attributing to her husband the famous (or infamous) phrase, "axis of evil." Media reports falsely declared that Frum had been sacked. In reality, he says, he had proffered his resignation weeks before, on the grounds that there was little need for an economic speechwriter when security issues were dominating the agenda.

Now, like a spy coming in from the cold, Frum has a hot new book detailing his adventures in Bushland. Currently a fellow at American Enterprise Institute, he obviously admires President George W. Bush but is not a Kool-Aid-drinking member of the cult of W. The result is *The Right Man: The Surprise Presidency of George W. Bush*, a work that is occasionally critical without seeming disloyal. Frum's rich anecdotes and smooth writing contribute to a work that provides more insight into Bush's personality than any since Bill Minutaglio's 1999 book, *First Son*.

While Frum paints a predominantly positive portrait of the President, his criticisms are sure to draw attention—in part because so few former Bushies ever acknowledge any of the man's shortcomings. "He has many faults," writes Frum. "He is impatient and quick

to anger; sometimes glib, even dogmatic; often uncaring and as a result ill informed; more conventional in his thinking than a leader should be."

That kind of talk is sure to irritate many of Bush's—and Frum's—friends on the right. But if Frum sends conservatives into occasional fits of apoplexy, he will anger many others, too. He's a proud, hard-right conservative who thinks Colin Powell (whom he compares with indecisive Civil War General George B. McClellan) and John McCain are squishy soft. An unequivocal supporter of Israel, he harshly criticizes Yassir Arafat, Syria, Saudi Arabia, the European nations that he sees as hotbeds of anti-Semitism, and a U.N. he views as a pawn of Muslim extremism.

Like his former boss, Frum is certain of the righteousness of his cause and happy to take the heat for it. He writes that Bush's "moral vision is not occluded by guilt or self-doubt." The same could be said for Frum. Still, while some will see the book as smug and ideologically extreme, open-minded readers will discover that Frum gives them a lot to think about, whether they end up agreeing with him or not.

A onetime neocon boy wonder and the author of *Dead Right*, a well-regarded 1994 book on the conservative movement, Frum came to the White House with impeccable right-wing credentials. But that doesn't lead him to try to portray the Bush White House as one big, happy family. Without choosing sides, he describes its foibles and factions—notably the two dominant groups led by political strategist Karl Rove and Bush counselor Karen Hughes. Rove is depicted as the leader of those who see

the electorate as composed of numerous segments that can be targeted separately. This approach led to a major blunder, says Frum: pushing to overturn a Clinton Administration regulation limiting arsenic levels in drinking water. Rove had thought the proposal would help the President carry Mexico in 2004.

Meanwhile, the author also finds with Hughes, who, along with her followers, views voters as a vast "unfettered mass of people." Frum compares Hughes as the author of ineffectual September 11, 2001, speech to the nation—one later dubbed by leagues the "Awful Office Address." He serves the author: "At the center of the speech, where Bush ought to have

explained who the enemy was and then pledged to destroy him utterly—the public offered instead a doughy plating of stale metaphor: 'America was targeted for attack because we're the brightest beacon for freedom and opportunity in the world. No one will keep that light from shining.'"

While Frum talks at length about these fiefdoms, he rejects the notion that Bush is no

charge. He portrays the President as a strong leader for difficult times and a principled man uncomfortable with political small talk and diplomatic niceties. "There is a Holden Caulfield streak in Bush's personality: a deep distaste for the necessary insincerities of political life," Frum writes. "From this streak come many of his best decisions—from it have come some of his worst troubles."

Some might argue that Frum's "axis of evil" formulation has complicated the goal of ousting Saddam Hussein. The Administration is tying itself in knots trying to explain why the U.S. must invade Iraq to remove a dictator who might or might not possess weapons of mass destruction while using diplomacy to counter another dictator who properly claims to possess nuclear weapons. In the end, Frum's book could be remembered as a more constructive contribution to the nation's well-being than his (in)famous phrase.

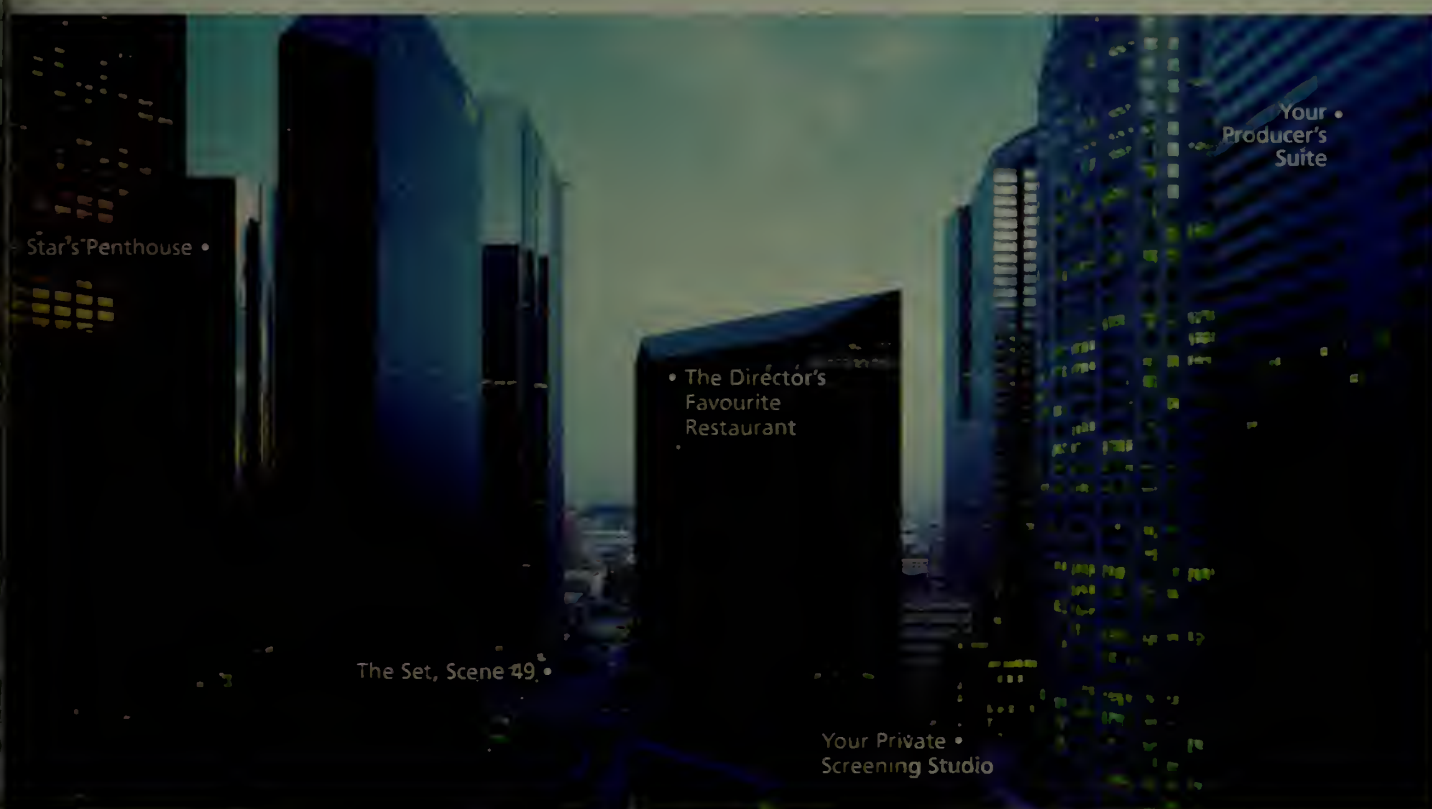
BY RICHARD S. DUNHAM

Dunham covers the White House



FRUM PAINTS A LARGELY POSITIVE PORTRAIT, BUT HIS CRITICISMS ARE SURE TO DRAW ATTENTION

Exactly where would you like our chauffeur to pick you up?



When you fly First Class or Golden Club Class with us from New York or Los Angeles, we'll have a chauffeur driven sedan pick you up when you leave. And waiting for you when you return. This service extends to any point within a 40 mile radius of the airport. It's our way of ensuring you have a smoother, faster, more comfortable flight. Even before you get on the flight. **Malaysia Airlines. Going beyond expectations.**



BY STEPHEN H. WILDSTROM

tech&you@businessweek.com

THIS 'SMART DISPLAY' ISN'T-YET



Microsoft's new wireless home add-ons are too pricey and have too many glitches

For the past couple of years, Microsoft has been working on an intriguing idea: the creation of a wireless "smart display" that would offer access to the programs and data on your Windows PC from anywhere in the house. You could view Web pages or scan your e-mail while watching TV, or check and update your calendar while working in the kitchen—all on a relatively inexpensive and simple device with a long battery life.

Unfortunately, good ideas don't always turn into good products, especially on the first try. In the case of Windows Powered Smart Display, its problems go well beyond its awkward name. For one thing, prices that start at \$1,000 will scare away many buyers. Worse, it's hobbled by poor software.

I tried two of the first products based on the Microsoft design: the \$999 ViewSonic airpanel V110 with a 10.4-in. display, and the \$1,499 Philips Electronics' DesXcape with a 15-in. screen. To the casual observer, they resemble some of the new Tablet PCs (BW—Nov. 25). The Tablets, however, are complete Windows PCs, while the Smart Display serves only as a remote screen for another computer that does all the real work. As a result, the Smart Display can get by with a minimal processor and memory and no hard drive, which helps it get four hours or more of battery life. The larger units, such as the Philips, can also double as a standard PC display when popped into a dock. Out of the dock, Smart Displays connect with their mother-ship computer over a Wi-Fi wireless network. They come with plug-and-play wireless adapters for your PC and software that sets up a Wi-Fi network if you don't already have one.

Smart Displays have the same problem all keyboard-less devices have: Data entry pain in the neck. You can type by tapping on on-screen keyboard with a stylus or print out character-recognition software that is so slow to be almost unusable. The big on-screen keyboard makes for easy typing, but it gets in the way on the display. Microsoft could have made it easier to use by opening and closing the keyboard automatically when text entry was required. Instead, you do it manually by pushing a button. You can also add an external keyboard, but that ruins the tablet-design concept. It's hard to think of the Smart Display as a device just for viewing Web pages, reading e-mail, or other tasks requiring minimal text entry. Versions coming out later in the year will have built-in keyboards, probably with flip-screen designs similar to convertible Tablet PCs.

At least as big a problem rests in the design of Windows itself. Smart Display makes use of Windows XP feature called Remote Desktop Connection (RDC), which permits remote login to a desktop. But the feature isn't part of the home version, so you may have to spend \$100 to upgrade to XP Home Edition (ViewSonic includes

**VIEWSONIC
AIRPANEL
V110**

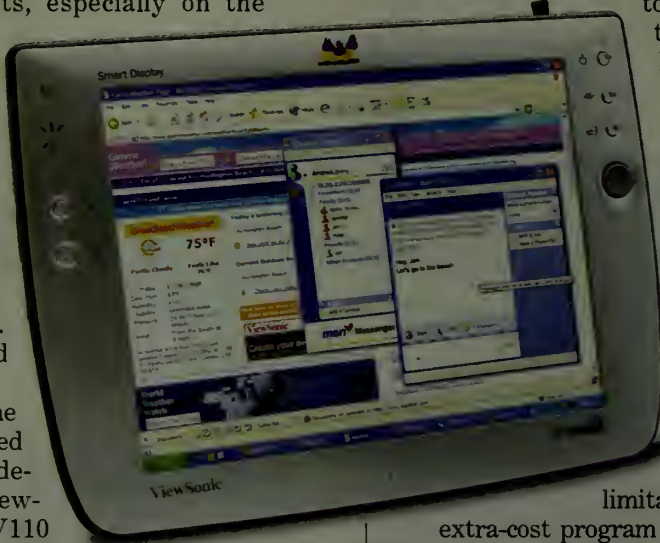
an upgrade with the V110 and the V150, larger, \$1,299 V150 plans to offer low-cost versions with the wireless adapter or the Windows upgrade this spring.

Then there are limitations of RDC. An old

extra-cost program called Windows Terminal Server allows multiple, simultaneous log-ins. RDC won't let a remote user log in if someone else is working at the keyboard. Microsoft says it was done to avoid problems with programs that did not function properly with multiple log-ins.

This turns out to be crippling for many potential uses. Say you have a Smart Display in the kitchen and someone calls to invite you to a party. You want to check your computer calendar, but you can't because one of the kids is logged on to the computer. And you can't check your mail while watching TV if your spouse is using the PC. Microsoft plans to remedy this in a future upgrade to Windows, but that may be a couple of years away.

I still like the concept behind Smart Display as a simple, low-cost way to leverage the extra computing power in most home PCs. But given the cost and limitations of the initial products, I can't recommend them. You can buy a Wi-Fi-equipped laptop for about the same money and get a more usable product. Prices could come down quickly, but the problems will remain until Microsoft dresses the software constraints.



BIG SNAG

The whole point is to be able to quickly check e-mail or your calendar, but Smart Display won't let you if your PC is in use

BusinessWeek online

FOR A COLLECTION OF PAST COLUMNS and online-only reviews of technology products, go to Technology & You at www.businessweek.com/technology/

CERTIFIED PRE-OWNED LEXUS

CERTIFIED PRE-OWNED LEXUS. THE LEXUS OF PRE-OWNED VEHICLES.

Given the high standards for which Lexus is known, we simply couldn't relax when it came to our pre-owned vehicles. So, following tradition, each Certified Pre-Owned Lexus is backed by the Lexus of warranties: three years from your date of purchase or 100,000 total vehicle miles.* Not to mention financing options typically reserved for brand-new cars.† You'll even get a complimentary loaner car‡ on service visits. Visit your Lexus dealer today. And test-drive the only vehicles to be designated as Lexus Certified Pre-Owned.



ONLY AT YOUR LEXUS DEALER
lexus.com

*See your Lexus Certified Pre-Owned dealer for warranty details. Only Tier 1 and 2 customers will qualify for the lowest finance rates. Service loaner cars available on qualified warrantable repairs only. © 2001 Lexus, a Division of Toyota Motor Sales, U.S.A., Inc. Lexus reminds you to wear seatbelts, secure children in rear seat, obey all speed laws and drive responsibly.

BY JEFFREY E. GARTEN

PUT YOUR MOUTH WHERE YOUR MONEY IS



BIG BOYS:
Funds and insurers own half the stock in listed U.S. companies. Their voice in corporate governance should be louder

Jeffrey E. Garten is dean of the Yale School of Management and author of *The Politics of Fortune: A New Agenda for Business Leaders* (jeffrey.garten@yale.edu).

Last year brought the most sweeping regulatory changes in corporate governance since the 1930s. A big question for 2003 is whether the momentum will continue or fade. The answer will partly depend on whether investors—especially big institutional investors—keep pressing for change.

The argument for more shareholder democracy is well known: Capitalism works best when owners look after their own interests, which are often not the same as those of corporate management. Boards of directors are supposed to represent shareholders, but they are selected not by shareholders but by management. Practically speaking, however, the country's 80 million retail investors are too dispersed and not knowledgeable enough to wield clout over Corporate America. This is not the case for pension funds, mutual funds, and insurance companies, since they collectively account for more than 50% of all U.S. registered shares outstanding and have major research capabilities.

So what should these institutional investors do? In speeches and articles, corporate governance expert Robert Monks has advocated that they should nominate at least three independent directors for each major publicly listed company; that all independent directors have access to outside advice on all significant mergers-and-acquisitions activity of their companies; and that they have complete control over audit and remuneration committees.

California Treasurer Philip Angelides, who oversees the state's public pension funds, wants institutional investors to target a few issues that will shake America's boardrooms. He wants funds to withdraw business from banks that persist in conflicts of interest between researchers and underwriters. He'd like institutional investors to publicly shame companies with egregious compensation policies. "The time has passed for writing letters and dropping by for quiet conversations with management," he told me.

I asked Patrick McGurn, vice-president and general counsel of Institutional Shareholder Services, about targets for stepped-up institutional activism. He talked of a possible shift from procedural issues—which Congress, the Securities & Exchange Commission, and the stock exchanges have dealt with—to more qualitative questions. Shareholders could well focus not just on the independence of auditing firms but also on the mandatory rotation of them, he said. They could pass judgment on how well directors have tied executive pay to performance. They could

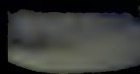
examine the depth of CEO succession plan. They could press for strong lead directors.

There are many skeptics. Robert Pozen, recently retired vice-chairman of Fidelity Investments, told me that while institutions ought to act diligently—by keeping an eye on competition, takeover proposals, and other issues that directly affect the price of securities—they are unlikely to do much more. The reason: They can't see the connection to their primary mission—generating higher financial returns.

In another interview, Alistair Ross Gordon, who chairs the International Corporate Governance Network, explained to me that many institutions worry about getting too involved in governance issues for fear of offending the corporations on whose business they depend. He adds that many institutions churn their portfolios so often that they are part of the problem, not the short-term focus of U.S. companies. Sarah Teslik, executive director of the Council on Institutional Investors, told me: "The stepped-up activity by institutions will be gradual, not dramatic."

Last week, a commission formed by the Conference Board recommended that institutional shareholders dramatically increase their oversight of companies in which they have invested. But exactly where on the spectrum of activism institutional investors will emerge may depend on the Bush Administration. I'd like to see the mandate easier and less-costly procedures for institutional shareholders to get their resolutions on ballots. It should force more activism by making it mandatory for institutional investors to vote their proxies and disclose how they vote. It should direct fund managers to set as their highest priority good long-term financial results for their beneficiaries, and then call for a public assessment of their performance in that context. It should jawbone top executives of public companies to get their organizations more involved in monitoring governance. Ultimately, these actions could even lighten the monitoring and enforcement burden on an already overstretched SEC by transferring more responsibility where it belongs—to the private sector.

With surveys showing that over 40% of investors think the securities industry is dishonest, the Bush Administration must be the champion of the small investor. But it's only the guys who will force needed changes. "This will be a watershed year for institutional investors," says California's Angelides. "We'll see if they can bilize for lasting impact." Let's hope they do.



WHEN YOU
SEE YOUR
FINANCIAL
LIFE THIS
WAY,



WHAT ELSE
DO YOU
LIMIT?

YOUR FINANCIAL POTENTIAL



How do you see your financial life? Your investments are here. Your retirement there. Your mortgage over here. Your banking way over there. Seen separately and managed separately, your financial life can only take you so far. Now, there's a way to go beyond those limits. Introducing Total Merrill.SM

At the heart of Total Merrill is a personal relationship. Working side-by-side with our clients, Merrill Lynch Financial Advisors see a client's life in total. They help all the pieces work together. And they help the whole become something greater. To see how, please turn the page.



MERRILL LYNCH
FINANCIAL ADVISOR
LYNETTE NOLL



TOTAL MERRILLSM

INTRODUCING TOTAL MERRILL. WHY

ADVICE AND PLANNING

Does your advisor help you assess your financial goals and develop a plan to help achieve them?

Does your advisor help you understand the probability of achieving your goals under different market conditions?

Do you get the quality of advice that only teams of experts in many areas can bring you?

ADVICE AND
PLANNING

BEYOND BANKING

Are your short-term investments structured to meet your personal cash flow needs?

Do you have no-fee online bill payment, no-fee checking and free ATM withdrawals?

Are you using a delayed debit service to save money even after you've spent it?

BEYOND
BANKING

ESTATE PLANNING SERVICES

Does your estate plan contribute to your financial well-being, as well as your heirs'?

Does your estate plan take into account your long-term health care needs?

Are your estate plans up to date?

ESTATE
PLANNING
SERVICES

BUSINESS FINANCIAL SERVICES

Do you have access to the long-term capital and short-term cash you need?

Are there any advantages to tying parts of your business to your personal wealth?

Do you have a business succession plan to guide your company's future?

BUSINESS
FINANCIAL
SERVICES



TOTAL MERRILL™

Our Financial Advisors take the time to understand a client's vision of investments and find powerful, innovative ways to achieve it. **CALL A MERRILL LYNCH FINANCIAL ADVISOR**

SEE YOUR FINANCIAL LIFE IN TOTAL.SM

RETIREMENT

RETIREMENT

Will your investments generate the income you need to have the lifestyle you want after you stop working?

Will traditional 401(k)s and IRAs alone secure that lifestyle for you?

What's the smartest way to set aside assets for philanthropy or to launch a second career?

CREDIT AND LENDING

CREDIT AND LENDING

Have you considered the benefits of interest-only home financing to improve your cash flow?

Could a personal line of credit provide greater cash flexibility than a traditional loan or mortgage refinancing?

Have you considered how refinancing your home could help supplement your retirement nest egg?

INVESTMENTS

INVESTMENTS

Do you have access to a breadth of investment options like alternative investments, hedge funds or managed money?

Are you able to choose from a wide array of fixed income investments, annuities and mutual funds?

Is a financial advisor working with you to keep your portfolio properly diversified?

TRACKING PROGRESS

TRACKING PROGRESS

Do you have a financial advisor who helps you set definite goals and provides regular reviews?

Do you receive quarterly reports that summarize all your holdings?

During your portfolio review does your advisor look at your complete financial picture?

in full and in depth. They look beyond the single dimension and leverage all the pieces of your financial life.

800-MERRILL. VISIT WWW.ASKMERRILL.ML.COM



Merrill Lynch

Leading Semiconductor Solutions

Custom semiconductors that empower performance.

A world leader in creating innovative solutions for advanced systems, NEC delivers competitive advantages. Our custom LSIs for example, improve overall system performance and functionality for mission-critical computer and networking applications. So we can deliver a broad range of high-quality solutions to meet your time-to-market requirements. From networking, systems integration and custom semiconductor solutions, we empower people through innovative technology. Call 1.800.338.9549 or visit www.necus.com.

Empowered by Innovation

NEC

JAMES C. COOPER & KATHLEEN MADIGAN

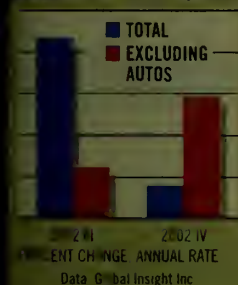
THE HEROIC CONSUMER: DOWN, BUT NOT OUT

Despite rising joblessness, shoppers will have the funds to soldier on

U.S. ECONOMY

Is the consumer spending machine running out of gas? One sign the tank may be close to "E" was the Federal Reserve's *Beige Book*, a regional survey of economic activity through Jan. 6, which said "reports on consumer spending were consistently weak." Another indication: The December employment report showed a sharp drop of 101,000 jobs, while the jobless rate remained at an eight-year high of 6%. These job trends—evidence that businesses are still not confident enough to start hiring again—are critical to the outlook because of two economic truths: Labor markets ultimately drive consumer spending, and consumer spending has been the linchpin of this recovery.

WHERE RETAIL SALES BOUNDED LAST QUARTER



atching, but the positives for household finances still argue that consumers can keep this recovery going until the business sector kicks into gear. After all, despite sagging car sales, retail still grew fast enough in the fourth quarter to fuel a 1.5% to 2% annual rate of growth in real consumer spending (chart).

THE BIGGEST PLUS for consumers in 2003 will be continued income growth. Despite the loss of 181,000 jobs over the course of 2002, hourly wages rose by 1.5%. With inflation running below 2%, the buying power of the average paycheck is still expanding. Add in other earnings, such as salaries, interest, and government assistance, and it is likely that real disposable income will grow by 2.5% this year, a solid support under consumer shopping.

Another key positive are the tax proposals. Forget the debate over dividends. The bigger payoff to households will come from accelerating the tax-rate reductions, originally scheduled for 2004 and 2006, adding bigger child tax credits and ending the marriage penalty. According to James Glassman, economist at J.P. Mor-

gan Chase & Co., these proposals cut personal taxes by \$82 billion. The total impact of the package would be about \$100 billion, which would lift economic growth by one percentage point from mid-2003 to the end of 2004.

The consumer outlook is also benefiting from the continued wave of mortgage refinancings. A survey by the Federal Reserve, published in the December, 2002, *Federal Reserve Bulletin*, studied refs done in 2001 and early 2002, prior to the record volume of activity in the second half of last year. The Fed economists found that lower mortgage rates enabled the average borrower to cut mortgage payments by \$98 per month. Allowing for a slightly longer loan maturity bumped the monthly savings to \$135.

The real boost to consumer spending, however, comes from the home equity tapped during a refi. The Fed study showed 45% of refinancers took money out of their homes, and those cashouts averaged \$26,723 in 2001 and early 2002, up substantially from the \$18,240 taken out in 1999. Borrowers used that money for a variety of purposes (table).

The study concludes that the refi-financed purchases added perhaps 0.5% to the annual growth rate of real consumer spending, and that home improvements lifted residential investment by 8.3%. Given that mortgage refs surged in the second half of 2002 and remained high into the first weeks of 2003, consumer spending should get help from refs this year as well, so consumers can continue to carry the recovery.

IT IS EQUALLY CLEAR, THOUGH, that the margin of error in the consumer outlook has narrowed considerably over the past year. The biggest uncertainty remains the growing geopolitical tensions. Possible war with Iraq is the largest overhang, followed by the nuclear standoff with North Korea, both of which are cutting into consumer confidence.

Plus, the Mideast turmoil and the strike in Venezuela are raising energy costs at a time when state governments are hiking taxes and fees to balance their budgets. Both trends will crimp household spending.

Global uncertainty is also hurting household spending because it is freezing the decision-making process

HOW HOUSEHOLDS ARE USING THEIR REFI MONEY

USE	SHARE OF CASHOUT DOLLARS*
REPAYMENT OF OTHER DEBTS	26%
HOME IMPROVEMENTS	35%
CONSUMER EXPENDITURES	16%
FINANCIAL INVESTMENTS	11%
REAL ESTATE OR BUSINESS INVESTMENT	10%
TAXES	2%

*MONEY TAKEN IN EXCESS OF ORIGINAL MORTGAGE
Data: Federal Reserve

Business Outlook

among companies. That paralysis is holding back hiring and capital spending. Businesses' reluctance to add workers was clear in last month's employment report. Private payrolls fell by 115,000 workers in December, after a loss of 104,000 in November.

Almost all the December decline was in retail jobs, and that at least offers a glimmer of hope for January jobs. In the past two years, retailers added far fewer workers during the holiday season than they historically have. After the Labor Dept. seasonally adjusted the December numbers, the retail sector showed a huge job loss (chart). But retailers won't have to lay off as many workers this month. So the next labor report could show a large gain in retail payrolls. That's what occurred in January, 2002, when retail employment jumped by 78,000.

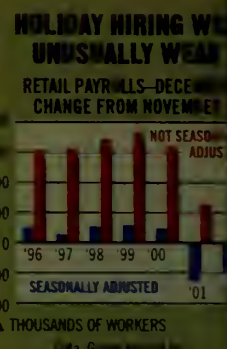
UNFORTUNATELY, MANUFACTURING JOBS won't stage a similar turnaround. They fell by 65,000 in December. But that's not necessarily a sign of weak factory activity. Goods-producers continue to use improved productivity and flexible working hours, rather than new hires, to increase output. In December, the factory workweek rose by 18 minutes, to 40.9 hours, and overtime edged up by 12 minutes, to 4.2 hours. Both were the highest readings since August. The longer workweek suggests industrial production increased last month for the second month in a row. That gain would

echo the December rise in business activity reported by the nation's purchasing managers.

Although factory productivity probably did well in the fourth quarter, the same can't be said of overall output per hour worked. That's because the labor report showed a record rise in self-employed workers. This might reflect laid-off professionals who turned to consulting or freelance work. The jump in self-employed workers increased the total number of hours worked in a quarter when output grew only modestly, probably holding back a gain in productivity in the fourth quarter.

But the favorable trend in productivity, which grew 5.6% in the year ended in the third quarter, means the 94% of workers still on the job will garner pay raises this year that outpace inflation.

Even so, the consumer outlook carries more risk now than at any time since the recession began. Expanding paychecks, along with a smaller tax burden, suggest that shoppers can keep spending this year even if unemployment stays around 6%. But that's only if geopolitical risks don't cause the consumer engine to stall out.



SPAIN

THIS EU MEMBER ISN'T TAKING A SIESTA

Spain is a prime example of how divergent the euro zone remains. Despite the zone's woes, the Spanish economy is doing well due to household spending. And a boost from the government will help keep consumers going in 2003.

In November, retail sales were up 7.8% from a year ago. And strong consumer demand is lifting prospects for manufacturers. Monthly industrial production grew 0.8% in November, led by consumer goods.

Given the strong pace of domestic demand, along with a pickup in exports, the government is forecasting fourth-quarter economic growth at an annual rate of 2%, vs. projections of less

than 1% for the whole euro zone.

Low interest rates are helping to fuel domestic demand. Real rates are negative, given the European Central Bank rate of 2.75% and Spain's 4% inflation.

That should keep home demand strong, even after estimates that mortgages outstanding jumped by 20% in 2002.

Wage gains, like the 3.7% rise in the third quarter, are keeping close pace with inflation, softening the effect of rising

joblessness. And even though Spain's unemployment rate, at 11.8%, is tops in the euro zone, strong growth and labor reforms have helped slash the rate from 17.5% five years ago.

Plus, income tax cuts of \$3.1 billion are set to begin in January, part of a larger \$4.8 billion package of cuts for 2003. But the move won't jeopardize the government's balance sheet: Despite a fall in revenues, the 2002 budget deficit is expected to equal 0.2% of gross domestic product.

To be sure, a stagnant global economy, rising oil prices, and stubbornly high inflation pose risks. Indeed, a prolonged increase in oil prices could accelerate inflation and crimp growth. But economic and labor reforms made in the late 1990s in order to fully join the European Union have enabled Spain to outperform its counterparts. That should continue in 2003, with real GDP growth potentially double the pace of the rest of the euro zone.

By James Mehring in New York



The

“STOP
LIVING
DANGEROUSLY”

storage software company.

86% of the FORTUNE 500® rely on VERITAS Software for data backup and recovery.

veritas.com


VERITAS™

Copyright © 2003 VERITAS Software Corporation. All rights reserved. VERITAS, the VERITAS Logo and all other VERITAS product names and slogans are trademarks or registered trademarks of VERITAS Software Corporation. VERITAS and the VERITAS Logo Reg. U.S. Pat. & Tm. Off. All other trademarks are the property of their respective owners.

BUSH'S TAX TORNADO

Will it force
Corporate America
to stop playing
games with profits?

When George W. Bush rolled out his \$674 billion economic package on Jan. 7, corporate finance officers sucked in their collective breath over the sweep of the program. CFOs knew that the centerpiece of his plan—eliminating individual taxes on dividends—could dramatically alter corporate behavior. Trouble is, they weren't sure how.

Today, many financial execs are still trying to gauge the impact of the dividend bombshell. Details released after the official unveiling revealed two crucial provisos. Not only would shareholders get a break on dividends but they would also be in line for a sweet new capital-gains tax cut on retained earnings. The catch: Nobody would get tax relief unless companies first paid income tax on their profits—an incentive for CFOs to pare back shelters (page 35). Suddenly, the Bush proposal has the potential to be the most far-reaching tax change for corporations since the landmark Tax Reform Act of 1986.

The White House hopes to build on the pressure corporate execs already feel to reduce debt and stop playing games with profits. Says Treasury Under Secretary Peter R. Fisher: "If we could find another reason to move [companies] off the earnings game, that's very positive."

The Bush foray has left CFOs facing uncertainty and tough decisions. Should they rely more on equity and less on debt to raise capital? Pay divi-

dends or hang on to earnings? How aggressively should they shelter income? "This proposal is very powerful," says tax lawyer Ernest S. Christian. "But people are having trouble getting their minds around it."

Adding to the uncertainty: The plan will change as Congress debates it for months. Many political pros caution that dividend relief could ultimately be trimmed to 50% or less.

Still, the outlines of how corporate financing and tax strategies could change are clear. The plan lowers the aftertax cost of dividends, so some companies will issue more stock, rather than debt, to raise money. Associates say Federal Reserve Chairman Alan Greenspan thinks reduced corporate leverage will make companies—and the economy—less fragile. Ralph V. Whitworth, chairman of Apria Healthcare Group Inc. agrees: "Leverage goes down, leading to healthier balance sheets and fewer bankruptcies."

Companies also may opt to pay more dividends as shareholders push for tax-free payouts. John A. Edwardson, CEO of CDW Computer Centers Inc., a Vernon Hills (Ill.) marketer of high-tech gear, says he may begin paying dividends. "We'll talk to our largest shareholders, consider our future cash flows and capital needs."

Still, the impact on dividends may be muted. The tax break for capital gains on retained earnings could

WHAT THE BUSH

DIVIDENDS?



The Administration hopes that ending double taxation will prod more companies to declare dividends. Currently, only about 10% of corporate earnings are paid out to shareholders.



ings and payouts.

Here's a closer look at how companies are likely to react to the Bush tax plan:

Will equity become king?

For many companies, the White House plan would make equity financing look a lot better relative to debt than it does today. The question is whether that will be enough to really tilt decision-making. Says Verizon Communications CFO Doreen A. Toben: "The President's bill may make using equity more attractive. However, we're not going to just start issuing more stock willy-nilly."

Although the tax treatment of dividends and interest will be more equal, debt would still have advantages. That's because companies could still write off borrowing costs, while investors would get the dividend tax break.

Since companies pay higher rates than most investors, the corporate benefit is worth more.

Still, equity will have new allure. Because dividends will be tax-free, shareholders will be willing to pay more for stock, cutting companies' cost of raising capital. What's more, a business can slash dividends in tough times, but it can't do that with interest payments.

Cash won't disappear

Certainly, tax-free status will drive some companies to join the dividend club. "To the extent that we have cash we don't have a use for, we're going to look harder at dividends than before," says Alfred P. West Jr., CEO of SEI Investments Co. in Oaks, Pa., and chairman of the American Business Conference, which represents midsize companies.

Nevertheless, the capital-gains wrinkle will counterbalance those pressures. It provides a generous tax incentive for shareholders when companies retain earnings. That will please many fast-growing high-tech companies, which prefer to reinvest profits. "It's not going to cause the Microsofts to start distributing earnings," says Alan J. Auerbach, a tax economist at the University of California at Berkeley.

No end in sight for tax shelters

The White House says the plan should curb the explosion of shelters, which have helped increase the gap between book earnings and taxable earnings to a staggering \$287 billion.

Currently, the use of shelters is a financial slam-dunk. A company lowers its tax bill, boosts reported earnings, and pumps up its stock. No one, except Uncle Sam, pays a price. The Bush plan would trim the benefits of shelters by requiring companies to make an explicit trade-off: If they avoid taxes, their shareholders will get socked with the bill. But if corporations do pay taxes, investors will enjoy tax breaks for both dividends and capital gains.

The proposal would also lower the value of more common corporate tax breaks, such as business purchases of municipal bonds, or the R&D credit, an outcome that has research-intensive drug and tech companies nervous. "This will water down the incentive for R&D," says Timothy M. McDonald, tax vice-president at Baxter International Inc.

Still, no one is predicting the death of shelters. Many companies would still be better off lowering their own tax bill, even if it means shareholders have to pay the tax on the dividends they receive. That's because half of all stock is held in tax-free accounts, such as pensions, and because many taxable shareholders prefer higher stock prices to dividends. Brookings Institution economist Peter R. Orszag, co-author of a new study of the proposal, says it "would not eliminate the incentive to

prove extremely generous, encouraging companies to hang on to profits rather than hike dividends.

In addition, many corporations would continue to use tax shelters, though the value of these devices could diminish. Even the more respectable tax breaks, such as the research-and-development tax credit, may be worth less because of the pressure to raise dividends. Finally, the balance of power between management and investors may tilt as shareholders get a clearer picture of the link between earn-

MEAN FOR BUSINESS How the plan could change corporate behavior

DEBT

By boosting share prices, the Bush proposal would make it easier for companies to pay off debt through new issues. That could also keep them from piling up much debt.



Shareholders of tech and other companies that reinvest in their businesses could pay lower capital-gains taxes. That means companies wouldn't be penalized for hefty capital spending.

TAX SHELTERS



Companies seeking to issue tax-free dividends would have to first pay corporate taxes on profits. That should discourage tax-avoidance schemes—though the value of legit tax credits would also be lower.

TRANSPARENCY



Today, it's hard to figure out what taxes a company pays. The Bush plan could increase disclosure by forcing businesses to show the trade-off between their tax bill and tax-free dividends they pay.

shelter. It could reduce it only slightly."

Besides, Wall Street pros and accountants aren't about to close up shop. Even before the plan has been sent to Congress, they're already figuring how their corporate clients can game the new law. One potential gimmick: trading foreign tax credits. They're the only current tax break that would not reduce the ability of companies to pay tax-free dividends. Says Leslie B. Samuels, partner at law firm Cleary, Gottlieb, Steen & Hamilton: "If you can buy a foreign tax credit for 90 cents and get \$1 back from the government, it's a good deal."

More scrutiny for management

While the plan won't eliminate tax shelters, it will make them more visible to shareholders. Investors will have a clearer view of the trade-offs corporations make in paying taxes, retaining earnings, and distributing profits through dividends. That will give investors new leverage to demand that companies either distribute earnings or explain why retaining them will boost shareholder value. For example, management will have to show how new capital investment will mean higher returns—or pay the price in falling equity

values as investors vote with their

Bush's dividend proposal has and tax experts wrestling with fundamental questions of corporate finance. He won't get all he wants, but the president is forcing corporate execs to rethink their priorities. The natural question is how they raise capital and pay tax, shifting in ways no CFO would have imagined a few short weeks ago.

By Howard Gleckman and Miller in Washington, with Joseph Ber and Michael Arndt in Chicago, and lene Weintraub in Los Angeles, and reau reports

DON'T STOP STUFFING YOUR 401(k) YET

President Bush's plan to repeal the individual tax on dividends has sent investors and financial planners scrambling for their calculators. One key question on everyone's mind: If the plan becomes law, should investors bother to keep putting money into 401(k)s, individual retirement accounts, and other tax-advantaged savings plans?

The answer—for most people—is yes, according to mutual-fund giant T. Rowe Price Group Inc. But once they have maxed out their 401(k)s, some individuals may be better off putting their hard-earned dollars into taxable accounts rather than into more esoteric aftertax investments, such as variable annuities.

Price concluded that most workers should continue to put pretax dollars into IRAs and 401(k)s. Whether you are investing in growth funds, which throw off few dividends, or income funds, which generate almost one-third of their total return through corporate payouts, you still would be in better shape sticking with those tax-advantaged accounts.

The reason: You'll be able to make a greater initial investment because your dollars are contributed before taxes. Here's how the numbers work, assuming you earn an average of 8% a year. Put \$10,000 into a 401(k) equity-income fund, and after 20 years, you'll have \$32,324. That's before any company match. But if you don't

make a pretax contribution with the dough, you'll first have to pay federal and state income taxes on the \$10,000. That will leave you with only about \$6,900 to invest. After 20 years, your nest egg will be just over \$26,000.

However, the Bush plan may require new thinking about investing with aftertax

CRUNCHING INVESTORS' NUMBERS

How taxable and tax-deferred accounts would stack up under the Bush dividend plan after 20 years, assuming investment in a dividend-rich equity-income mutual fund and an 8% average annual total return

INVEST \$10,000 PRETAX IN AN IRA OR 401(k)	\$32,324
INVEST \$6,935—THE SAME \$10,000 AFTER TAXES—IN A TAXABLE ACCOUNT	\$26,123
INVEST \$10,000 AFTERTAX IN A VARIABLE ANNUITY	\$35,389
INVEST \$10,000 AFTERTAX IN A TAXABLE ACCOUNT	\$37,668

Data: T. Rowe Price Group Inc.

dollars. If the proposal becomes law, you may be far smarter to throw extra cash into a taxable account rather than into a sheltered investment such as a variable annuity or a

nondeductible IRA, where the benefit of tax-free dividends is lost. For example, on a \$10,000 investment, Price figured the tax-deferred account would be worth just \$35,389 after 20 years, assuming taxes are paid at ordinary income rates when the cash is distributed. A taxable account would be valued at \$37,668, since there's no tax on the dividends.

The Price study is rough, and it ignores two key provisions of the Bush plan. Price assumes all dividends would be tax-free. But Bush would curb a company's ability to

STAY TUNED: Details of the bill will change



pay tax-free dividends unless it first pays corporate taxes on its earnings. This rule would make taxable accounts less attractive.

On the other hand, the Bush plan also would give investors a big capital-gains tax break for shares in companies that retain and reinvest earnings. That would boost the taxable accounts. Still, the lack of details made it impossible to figure how big a benefit that would produce.

So for now, keep doing what you've been doing. If you are participating in a 401(k), don't stop. Key details of the Bush plan will change as Congress debates the bill. But when it finally passes, take stock of what it means for your tax-advantaged accounts.

By Howard Gleckman in Washington

PALMY DAYS

New rules mean more complexity—and that means more business

nies became increasingly global, the tax code, to keep pace, has grown ever more complex. The result has been a rich vein of tax breaks for companies and their advisers to mine. The Bush plan does little to change that. Indeed, a new breed of tax shelters, built around publicly marketed securities rather than hard assets like real estate, are blossoming. With their bigger payoffs and more manageable risks, they make aggressive tax management an even better moneymaker for corporations than it already is.

Companies reaping huge rewards from smart tax strategies will be loath to give them up just to gain tax-free status for their dividends. Financing and manufacturing giant General Electric Co., for example, has saved billions. A 2000 study by the Washington-based Institute on Taxation & Economic Policy found that GE racked up a staggering \$6.9 billion in breaks in just three years, trimming its tax bill by 77%. Since 1998, the last year of the study, GE's effective tax rate has declined dramatically, hitting 20.5% in the third quarter of 2002—a far cry from the 32.6% it reported in 1996, or the 35% statutory rate.

Instead, companies that continue to try to minimize their tax bills will likely change how they do it, to capture some of the benefits of the President's plan. Martin A. Sullivan, an economist at Tax Analysts, a nonprofit tax publisher in Arlington, Va., predicts that many will seek to reclassify gains, interest, and other costs as dividends in order to take advantage of their new tax status. Techniques for maximizing foreign tax credits will likewise become even more important since foreign taxes paid will increase the amount of tax-free dividends under Bush's proposal.

Still, some of the more aggressive shelters in use today likely will be toned down. Lehman Brothers Inc. tax analyst Robert Willens argues that there has been a strong public backlash against such tax-avoidance schemes because of scandals at Tyco International Ltd. and Enron Inc. But "normal, smart tax planning? I don't think that will diminish," says Willens. Certainly not if recent history is any guide.

By Nanette Byrnes and Louis Lavelle in New York



YES

DEATH, TAXES, AND TAX SHELTERS

The Bush plan is a boon to lawyers, advisers, and accountants

Finding creative ways to reduce tax payments has long been a goal at most corporations. But since the 1-1990s, as companies have come under ever more intense pressure to boost earnings, the tax avoidance game has become a major industry. According to the U.S. Treasury, five years ago corporations anted up 12.5% of all taxes paid to the government. Last year, that fell to 8.7%.

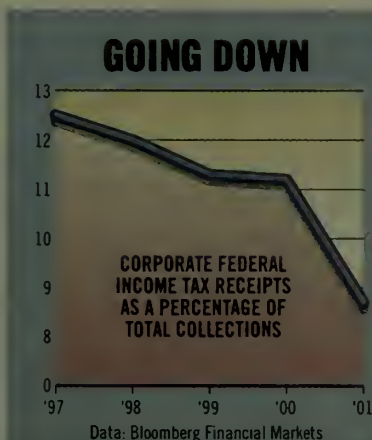
Although the economy's decline has played some role, many corporate finance officers could never have pulled off such a feat were it not for the help of a sophisticated and fast-growing industry: the lawyers, accountants, and Wall Street advisers who specialize in everything from structuring tax shelters to the art of shifting earnings to low-tax markets overseas. But with the Bush tax proposal suddenly casting new light on companies that pay very low tax bills, does that mean leaner times ahead for the booming tax advice industry?

Don't count on it. While much remains unclear about the Bush plan, one thing is certain: This may be

tax reform, but it sure isn't tax simplification. The plan will add more requirements to the tax code, which is already groaning under the weight of thousands of statutes and regulations—1,151 changes since 1997 alone. And new rules generally bring more business to the advice gang, not less. "The world is being turned upside down," says Leslie B. Samuels, a tax specialist with law firm Cleary, Gottlieb, Steen & Hamilton. "From a tax lawyer's point of view, we're in heaven—and we didn't have to die."

Increased complexity has already helped the Big Four accounting firms greatly expand their tax businesses over the last decade. According to *Bowman's Accounting Report*, the U.S. tax practices of KPMG, Deloitte & Touche, Ernst & Young, and PricewaterhouseCoopers posted revenue of \$5.6 billion in 2001. That's more than double their 1995 tax revenue of \$2.4 billion. While that includes tax preparation, advisory work is where the big gains have come.

Another wave of growth could soon be on its way. As compa-



COMMENTARY

By Tom Lowry

AOL HAS NO FUTURE...



The dream lives on at AOL's headquarters in Dulles, Va. Even at AOL Time Warner Inc.'s offices in New York, some cling to the hope that somehow, someday, the merger will pay off. And when it does, just you watch: Music, sports, and HBO will cascade through the Internet, mixing with e-commerce and instant chat.

Getting weary? AOL Time Warner has been talking about synergy and multimedia millions for three years now. But the payoff keeps getting pushed back, and the burden of AOL grows heavier by the day. Now, as Stephen M. Case prepares to step down as chairman of the combined company, directors should snap to their senses and dump the Internet unit. Sell it. Spin it off. Give it away, if need be. The magic is gone.

For a few crazy years, AOL ruled the Internet. People had PCs and modems, and when they put a small diskette in their computers, suddenly the wide world of cyberspace opened before them, albeit at a poky rate. It was almost magic, and AOL grew into a colossus, with 35 million subscribers. Now, those folks are moving to high-speed broadband connections. They're paying \$35 to \$50 a month to a phone or a cable outfit. Some 200,000 abandon AOL every month. AOL was their primary school—and now they're graduating.

AOL isn't letting those customers go without a fight. But its offer is laughable. Go ahead and pay your monthly bills to the cable or phone company. And if you pay AOL an extra \$14.95 a month, you can keep your AOL account. Sound inviting? Maybe some hard-core AOL addicts will pay extra to keep their e-mail and a bit of exclusive content, but only a few. "As broadband becomes dominant,"

says Steven Rattner, co-founder of Quadrangle Group LLC, a media and communications investment firm, "it's not clear AOL can continue to prosper, or get the same kinds of margins."

That brings us to money. AOL's cash flow has dropped from a peak of \$2.3 billion in 2001 to what Merrill Lynch & Co. estimates will be \$1.4 billion this year. Its debt totals \$10 billion, which costs some \$666 million a year to service. And holding on to its 27 million U.S. customers costs a mint. Marketing costs will rise by nearly 50%, from \$1.5 billion this year to \$2.2 billion by 2005, says Merrill Lynch.

Those are numbers Time Warner shareholders and CEO Richard D. Parsons should be happy to avoid. Ditching AOL, of course, means forfeiting a piece of Steve Case's dream—a world with great content, must-see Internet, and desktop HBO. But Time Warner and AOL have been struggling for months to come up with a package of exclusive content alluring enough to hold subscribers, and they're nowhere close. The challenges are huge. Outside the sleazy world of cyberporn, few have figured out how to create original Web content that people will pay for. What's worse, the biggest sensations on the Net are file-swapping sites such as Kazaa.com and

Morpheus, the sons of Napster. To these sites, an entire generation of music and video lovers is getting free content. That may undermine offerings for years to come.

It gets worse. While AOL still trails Microsoft Corp.'s Web service, it's been on the rise. With its latest version, experts say MSN has caught up to AOL in functionality and user-friendliness. Furthermore, MSN has zipped ahead in parental-control software and spam filters—a key concern for longtime family subscribers. What's more, Microsoft poured \$500 million into R&D for its online service and is sitting on a \$40 billion cash hoard. That's plenty of money for armies of engineers developing new generations of instant chat, sp-



PARSONS SHOULD PREPARE TO DUMP AOL—NOW THAT CASE IS STEPPING DOWN



and the multimedia dream. Microsoft sinks its teeth into a market it rarely settles for second place.

Give it up, AOL Time Warner. Those three letters from the front of the name. It means fewer headaches and red numbers. That lost icon from the front isn't going anywhere this century.

Lowry covers AOL Time Warner for New York.

WHY AOL CAN'T BE SAVED

■ Internet growth is in broadband, where cable and phone companies dominate and AOL is a bit player.

■ Microsoft's rival MSN service has caught up to AOL in quality and user-friendliness. Unlike cash-squeezed AOL,

Microsoft has \$40 billion in cash, plenty to invest in technology to stay ahead.

■ The AOL brand is tainted by its rep as "the Internet on training wheels." Web surfers are becoming more savvy and view AOL as a relic.

■ AOL is betting big on original content to lure and keep subscribers. But so far, outside the world of cyberporn, no one has figured out how to make original Web programming that people will pay for.

COMMENTARY

By Catherine Yang and Timothy J. Mullaney

... YES, IT DOES

First, let's clear something up. Contrary to popular opinion, AOL is not a dying whale washed up on a beach. With 35 million users, it dwarfs MSN, the No. 2 access service, which has only 15 million subscribers. In 2002, AOL is expected to rake in \$7.2 billion in subscription fees, up 18%, in spite of the sluggish economy. And while its cash-flow earnings are expected to drop from \$2.3 billion in 2001 to \$1.4 billion in 2003, its margins are bigger than those of Time Warner's music or film units. Also, it has by far a larger market share than any of its Time Warner brethren. AOL has a potentially brighter future than the rest of Time Warner. It just needs to be independent to get there.

That's the glitch. The bungled merger with Time Warner left AOL looking like a wasting business. But if it were liberated from the rancorous AOL Time

Warner into the next stage of the Internet era.

Of course, despite AOL's great assets and potential, it faces a heap of troubles. Its U.S. advertising and e-commerce revenues declined from a peak of \$2.3 billion in 2001 to \$1.2 billion last year, and they are expected to bottom out this year at \$747 million, according to Thomas Weisel Partners LLC. Meanwhile, its growth in net new subscribers has bogged down from more than 1 million a quarter during the go-go days to 206,000 in last year's third quarter. The grave threat is that millions of subscribers will drop it as they switch to high-speed Internet access. For now, however, the losses are manageable and can be reversed. It's crunch time, but AOL has the wherewithal to heal itself. Here's what should be done:

It must become a leader in the move to broadband. Right now 4.1 million of its members get AOL via broadband connections. Most get AOL for as little as \$14.95 on top of broadband access from other providers, which costs another \$35 to \$45 monthly. About 650,000 get AOL's broadband product bundled

with other services. The \$23.90 monthly fee for regular dial-up service is a keeper. Subscribers aren't bothered by the price tag. But to round up broadband subscribers, AOL must reduce its fee for customers who bring their own broadband access—lowering it from \$14.95 to \$9.95 a month, matching archrival MSN.

To make customers want to stick with AOL even when they shift to broadband access, AOL must come up with compelling new content offerings. This shouldn't be the glitzy HBO-type stuff that AOL Time Warner has been pushing. It should be practical services. AOL could easily build an online dating service to rival Match.com, which makes 20% margins for USA Interactive Inc. One promising target for acquisition is Lending Tree Inc., the newly profitable leader in online lending, which has predicted 70% annual earnings growth through 2007.

Next, AOL's ad strategy is badly in need of a makeover. Up until now, it has relied too much on ineffective banner ads. It needs to improve its use of new forms of advertising, including jazzed up classifieds and payments from advertisers for placements in search results. Net portal Yahoo! Inc. has done this and watched its ad revenues rise 32% in the fourth quarter.

Finally, to keep the cash cow producing, AOL has to shore up its basic operations. That includes everything from

Liberate AOL from the corporate shackles of Time Warner, and the old risk-taker would leap into the next era of the Net

improving customer service to offering better parental controls to making e-mail capable of more easily handling photos and videos.

culture, this onetime Internet risker would shine once again. The potential synergies between AOL and Time Warner's entertainment units never fully materialized, so AOL is better off being a free agent. It can make deals with the industry's big players, whether that's Sony, Electronic Arts, or Warner Bros. Without any external constraints holding it back, AOL could take the risks necessary to leap

with Web access from Comcast, Time Warner Cable, and major phone operators at roughly \$55 a month. Bundling is the fast way to round up subscribers, since buying that way is more convenient for them, so AOL has to line up new bundle deals with the other major cable companies—including Cox and Cablevision—even if it means swallowing its pride and giving them a bigger slice of the revenue stream.

improving customer service to offering better parental controls to making e-mail capable of more easily handling photos and videos.

It won't be easy to set AOL free. It's on the hook for \$10 billion in debt. But the sooner AOL gets going on its own, the better.

Yang covers AOL from Washington, and Mullaney covers e-commerce.

AOL THRIVE

■ By cutting deals with cable and phone companies to package the AOL service with their Internet access, it can make the leap to broadband.

■ Its pricing must drop. While AOL can keep its \$23.90 monthly fee for regular Net

access, it should lower its bring-your-own broadband access rates from \$14.95 to \$9.95, matching rival MSN.

■ Better classifieds and paid placement in search results would revive advertising. Yahoo! has done this, and its

ad revenues rose 32% in the fourth quarter.

■ AOL needs to focus on services, not TV-like content, by cutting deals with music, movie, and game companies to create premium-priced offerings.

COMMENTARY

By Larry Armstrong and David Welch

DON'T TREAD ON ME —OR MY SUV

Seen the most recent volley from the anti-SUV brigade? In TV ads that started airing on Jan. 7, they try to make driving a sport-utility vehicle tantamount to financially supporting Osama bin Laden and his gang of terrorists.

In a parody of Bush Administration anti-drug ads, a parade of talking heads—seemingly ordinary Americans—intone “I helped hijack an airplane.” “I helped blow up a nightclub.” “So what if it gets 11 miles to the gallon?” The logic? SUVs use lots of gas. Gas comes from the Middle East. The Middle East funds terrorism.

This latest campaign is the product of the so-called Detroit Project, an ad hoc Hollywood group headed by conservative political commentator and gadfly Arianna Huffington. She gave up her 13-mpg Lincoln Navigator a year ago for a tiny, hybrid gas-electric Toyota Prius and wants you to do likewise. The Detroit Project is just one of a number of activist groups that have emerged recently with the aim of stamping out SUVs. By torching them at dealerships, tagging them with graffiti or phony parking tickets, or, most absurd, implying that Jesus would never drive an SUV, all hope to vilify the gas guzzlers.

It won't work. Just ask the Sierra Club. Veering from its longtime save-the-environment pitch, it ran a TV campaign linking gas guzzlers to national security last June. “It didn't resonate with the average American,” says Daniel F. Becker, who heads the group's global-warming initiatives. In a Jan. 13 CNW Marketing Research Inc. survey of 4,700

people, only 1.8% of those who had seen the ads said they would reconsider buying an SUV. Says CNW President Arthur M. Spinella: “A lot of people took offense.”

Americans aren't going to be shamed into giving up their big cars by inflammatory ads. Even poor fuel economy and growing charges that they're unsafe haven't made a dent in sales. Car buyers continue to snap

WHAT IS YOUR SUV DOING
TO OUR NATIONAL SECURITY?

A GROWING BACKLASH

Conservatives, environmentalists, and fundamental religious groups have launched attacks on Americans' love affair with SUVs

INTERFAITH CLIMATE & ENERGY

CAMPAIGN A coalition of religious organizations, including 50 Evangelical Christian groups, that has mounted an anti-SUV ad campaign intended to pressure auto makers to build more efficient cars

THE DETROIT PROJECT Spearheaded by conservative columnist Arianna Huffington, the group raised \$100,000 for an ad campaign equating filling up a gas-guzzling SUV with funding terrorism

EARTH LIBERATION FRONT

Comprised of radical underground environmentalists who claim to have set fire to SUVs at a Ford dealership in Erie, Pa.

EARTH ON EMPTY A group that places parking ticket-like citations on SUVs chastising owners for driving gas guzzlers



RUNGE

up SUVs in record numbers. One out of every four new cars sold last year was an SUV, and sales of the monsters grew 6.3% even as the U.S. vehicle market fell 2%, according to researcher Auto

data Corp. For the first time, so-called light trucks including SUVs and extended-cab pickups, outsold passenger cars.

Carmakers are quick to note that there has been no backlash from buyers. The mantra: We make products people want to buy. To the extent that the industry has any awareness of the negative impact of SUVs, it stems from ever-toughening fuel-economy and emissions rules. On Jan. 7, General Motors Corp. said it will outfit a dozen models with a fuel-efficient hybrid powertrain by '07. Toyota Motor Corp., already the leader in hybrid sales, will launch a luxury Lexus SUV next year that has the fuel economy of a four-cylinder compact—roughly 24 mpg—and the performance of a V8.

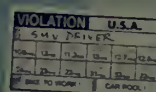
Similarly, manufacturers are likely to make SUVs less vulnerable to rollover and side-impact accidents because of government prodding. On Jan. 14, citing data suggesting that SUV passengers are three times as likely to die in a rollover than are drivers of conventional cars, Jeffrey W. Runge, head of the National Highway Traffic Safety Administration, suggested that the government may make such safety gear as side-curtain airbags mandatory.

Mostly, though, carmakers are warily eyeing Gen X and Gen Y, the car buyers who will dictate the companies' future. They're idealistic and care more about the environment than their elders. “The younger generation will end up forcing a change,” says Wesley R. Brown, an analyst at Next-trend, an auto market researcher in

Thousand Oaks, Calif. By the time those youngsters have the cash to call the shots, you can be sure Detroit will offer the environmentally correct products they'll want to buy.

Los Angeles-based senior correspondent Armstrong drives a 1988 Toyota MR2. Detroit correspondent Welch drives a 2003 Mini Cooper S.

What Would Jesus Drive?
www.WhatWouldJesusDrive.org



HOW THE SEC MIGHT LOWER THE BOOM

For the Securities & Exchange Commission, Jan. 26 is the regulatory equivalent of D-Day. That's the date by which regulators must issue final rules on a host of new corporate-accountability measures required by last year's Sarbanes-Oxley business-reform law. The onslaught of rules is causing many CEOs, boardroom directors, accountants, and corporate lawyers to sweat. Below, the prospects for some of the agency's most controversial proposals.

DEFLATING FUNNY NUMBERS

PROPOSAL Will require CFOs to reconcile ad hoc "pro forma" earnings, which can present a distorted picture of corporate earnings, with official numbers prepared according to generally accepted accounting principles.

OUTLOOK The Securities & Exchange Commission adopted the rules on Jan. 15.

WHISTLEBLOWERS IN PINSTRIPES

PROPOSAL Would require corporate lawyers to take evidence of fraud by client companies to top managers and boards. If clients fail to act, lawyers must resign and tell the SEC they quit for professional reasons (see page 54).

OUTLOOK Lawyers complain that this would undermine the strict code of confidentiality that now covers discussions with clients. The SEC is likely to settle for forcing lawyers to report any fraud by CEOs and directors.

RATING THE RATERS

PROPOSAL Would require the SEC to report to Congress on the role and effectiveness of credit-rating agencies such as S&P and Moody's.

OUTLOOK The Commission may explore increasing competition among the agencies but won't push for more players in the ratings game.

FORCING AUDITORS TO FOCUS

PROPOSAL Would bar accountants from doing info-tech consulting for audit clients and require board audit committees to scrutinize the auditor's role in devising tax strategies for clients.

OUTLOOK Companies and accountants alike are pressing for easier rules, especially on tax consulting. But the SEC isn't likely to budge.

UNMASKING FINANCIAL ENGINEERS

PROPOSAL Would force CFOs to disclose far more detail about off-balance-sheet financings.

OUTLOOK Critics say the rule would make companies highlight deals that pose little risk, mixing routine business pacts with Enron-style special-purpose entities. The SEC is likely to focus on disclosure of practices most vulnerable to abuse.

WHO'S THE EXPERT?

PROPOSAL Would make board audit committees disclose whether they include a financial expert.

OUTLOOK In response to criticism, the SEC has broadened its definition of a "financial expert." Critics say it will still be hard for some companies to recruit a director who qualifies.

By Amy Borrus in Washington

IS THIS JOB WORTH \$452,000 A YEAR?

How much pay is too much for a good watchdog? For critics of the new Public Company Accounting Oversight Board (PCAOB), \$452,000—the salary four board members voted themselves on Jan. 15—is. The chair, who is yet to be named, will draw \$556,000. That easily tops George W. Bush's \$400,000 and is more than three times the \$142,500 the head of the Securities & Exchange Commission makes. No wonder they're drawing fire. "Financial regulators are vastly underpaid," says Paul C. Light, founder of the Brook-

ings Institution's Center for Public Service, "but [\$452,000] is double the fair level for public service."

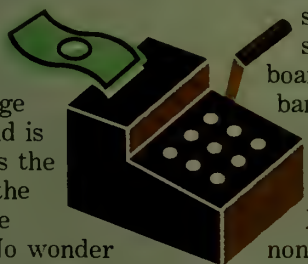
But with watchdogs, you get what you pay for—and if the oversight board meets its challenges, those rich salaries will be justified. The senators who designed the board as part of last year's Sarbanes-Oxley Act authorized high pay to draw top talent. The pay matches that of the Financial Accounting Standards Board, another private-sector nonprofit under the SEC.

The board, which is charged with reining in the traditionally potent accounting lobby and restoring in-

vestors' faith in financial statements, requires as much toughness, independence, and political savvy as any Cabinet post—without the glory. Remember, until he declined, former Federal Reserve Chairman Paul A. Volcker was everyone's top pick to head the PCAOB. For that type of talent, public companies—who will pay fees to support the board—must ante up. Sure, Volcker and others often serve government for low pay. But they tend to leave their posts quickly. Top salaries will allow longer tenures, slowing the spinning door between agencies and industry.

In return, investors should demand the best. The board must write stricter auditing rules and impose brutally honest reviews on accounting firms. That would make it priceless.

By Mike McNamee in Washington



COMMENTARY

By Dean Foust

WHAT WORKED AT GE ISN'T WORKING AT HOME DEPOT

When Home Depot Inc. landed Robert L. Nardelli as CEO some two years ago, it was hailed as a coup for the nation's second-largest retailer. A retailing neophyte, Nardelli was a manufacturing star at General Electric Co.'s Power Systems unit. Home Depot's board bet it could benefit from his operational savvy. After all, though Home Depot had successfully blanketed the nation with its orange-striped stores, the \$58 billion retailer was rife with waste and inefficiency, having failed to invest in the systems to manage its ever-sprawling network.

Fast-forward to the present, and it's clear the transition has been more difficult than expected. On Jan. 2, Atlanta-based Home Depot warned that fiscal fourth-quarter sales at stores open a year or more would be down as much as 10%. It was the second such quarterly drop and the seventh straight quarter in which Home Depot has lagged archival Lowe's Cos.

It was no surprise, then, that the announcement sent shares down 14%, to \$21.38. All told, they're off 50% since Nardelli became CEO in late 2000. "I think there are people on Wall Street who are questioning his ability to make the

CEO NARDELLI: *Staff cuts have backfired*

change and run a retail organization," says Erik Becker, an analyst at Waddell & Reed Financial Inc., which has cut its stake from 1.7 million shares to 448,000 since June.

The heavy hammer has hit Home Depot from many fronts. The company blames its sales dip largely on the poor economic and retail cli-

mate, as well as a decision not to repeat the costly promotional sales of past years. But analysts and investors see another culprit: A customer backlash against Nardelli's overambitious inventory and staffing initiatives, which have badly disrupted service and sales.

Nardelli dismisses the skeptics, insisting that the transition from turbines to tools has been relatively smooth. "Is retail different? Sure it is," he admits. "But there are certain fundamentals in running a business that are pretty portable." And directors profess their full support of Nardelli's sweeping makeover. "We're telling him to stay the course," says director Ken Langone.

But critics argue that Home Depot's woes stem from Nardelli's efforts to force manufacturing-like processes onto retailing. In his GE days, he was able to shave inventory even as he pushed managers to move products out the door quicker. But his efforts to do the same at Home Depot have simply slowed reorders, leaving stores out of stock in such key areas as electronics. Meanwhile, he has shaken up his workforce. The share of part-time sales clerks has gone from 26% to as high as 50% in 2002—even as rival Lowe's with a staff that's 80% full-time garnering a rep for better service.

Home Depot officials maintain that the sweeping makeover will leave the retailer stronger than ever. But Nardelli & Co. can only hope that disaffected customers give the retailer a second look.

With Brian Grow in Ocala, Fla.



EMC: Outstripping sales estimate

HIGH TECH

SANTA BROUGHT A LOT OF DISK DRIVES

The fourth quarter was a gift for the data storage sector

For a few brief days in early January it felt like the good old days in the corner of the battered tech industry. Already this month, four companies that make storage systems have said they would beat fourth-quarter estimates. EMC said sales would surpass analysts' expectations by 18%, working gear maker McDATA said revenues were running 20% higher than expected, and StorageTek boosted earnings projections by 25% for the quarter. And on Jan. 9, drivemaker Seagate Technology Holdings posted a 60% profit gain, to \$198 million, on sales up in its first quarter as a public company.

So is it time to break out the party hats? Not quite yet. While spending on storage is often a leading indicator for the whole tech sector, it doesn't look like the fourth-quarter bonanza signals a turn. "One good month does not make a trend," says Dave Roberson, president of Hitachi Data Systems Corp.

What gives? The jump was largely due to a yearend spending spree. Despite the slowdown in the economy, the need for storage capacity has continued to soar. Businesses and consumers g

THE BUSIEST CONTACT CENTER at
Rent A Car crashes and is fixed remotely
before a single reservation is dropped. Before
anyone at Dollar is even aware of a problem.
A problem ever exist? In the state of Avaya,
Expert Systems™ remote monitoring and

maintenance solutions resolve 96% of all alarms
remotely. Nobody has our patented leading-edge
diagnostic tools, including proactive trouble
resolution. And our Avaya Global Services pro-
fessionals bring a single point of accountability
to multi-vendor communication environments.

That's reassuring when your company runs a
fleet of 140,000 rental cars at 400 worldwide
locations, with a reputation for superior customer
service. See why no one else comes remotely
close to maximizing your network investment at
avaya.com/services. Or call 866-GO AVAYA today.

IP Telephony

Contact Centers

Unified Communication

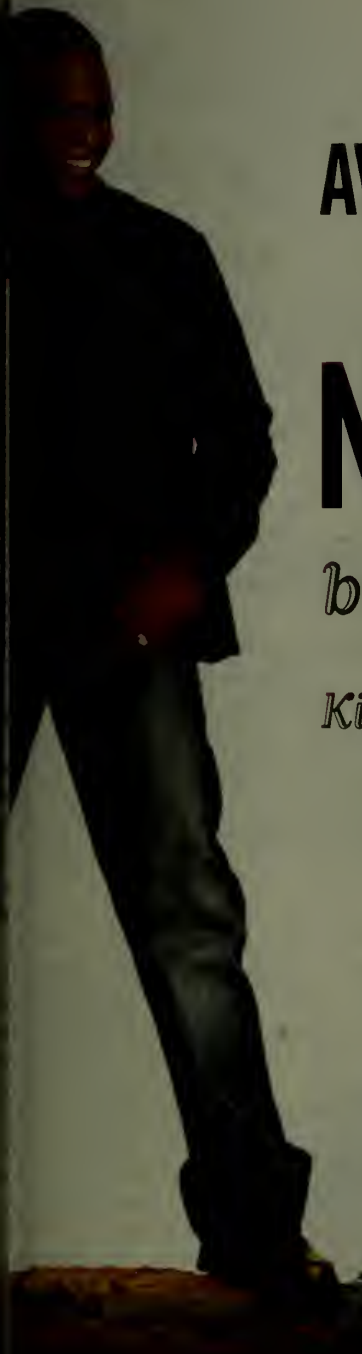
Services

AVAYA REMOTE MONITORING FIXES *Dollar Rent A Car's*

NETWORK CRASH

before anyone hears an alarm.

Kind of like that tree that falls in the forest.



erate ever-growing loads of e-mail and other digital fare that needs to be stored. So businesses that found themselves with a little money left in their tech budgets at the end of the year funneled most of it into storage gear.

Problem is, storage companies typically suffer a seasonal dip in sales in the first quarter, so those gains won't last. Overall, tech researcher Interactive Data Corp. looks for storage sales to fall 3.7% in 2003, to \$12.8 billion.

That's not as bad as it sounds, coming off of 2002's 18.9% drop. Unlike other tech markets, demand for storage has been strong throughout the downturn. CIOs surveyed by Merrill Lynch & Co. say tech budgets should rise only 1% in

The uptick in storage —a result of pent-up demand and available yearend funds

2003, but they cite storage as the top area where they expect spending to increase. For the industry, the problem is the cost of a megabyte of storage drops roughly 40% a year. That didn't hurt in the late 1990s, when demand zoomed 80% or more annually. But now it's barely enough to compensate for the falling prices, say analysts.

Moreover, the industry's surprisingly strong fourth quarter suggests storage may still turn out to be one of tech's safest harbors in the months to come. Companies are focusing on finding more efficient ways to use the drives they have. That creates brisk demand for new approaches, such as networks that tie storage gear together. While expensive, the networks give companies the flexibility to move data among machines and find underused drives. In some cases, companies have raised how much they can store on back-office machines from 35% to 60%.

That could drive more demand for storage and maybe other types of technology. As companies raise utilization to 80% or so, they'll have no choice but to buy more gear. "You can only fill up the glass to a certain point before it starts to overflow," says Storage Technology Corp. CFO Robert S. Kocol. And when storage's cup runneth over, the rest of the sector may not be far behind.

By Peter Burrows in
San Mateo, Calif.

TRANSPORTATION

IS SEGWAY GOING ANYWHERE?

It's having trouble finding a market for its pricey scooter

Dean Kamen has some awfully impressive accomplishments under his belt. The self-taught inventor has made millions on such breakthrough devices as a stent to keep arteries clear and a portable dialysis machine for kidney patients. So will he notch up another win with his latest project, the much-hyped Segway Human Transporter?

Well, don't throw away your walking shoes just yet. A year after the Segway was unveiled in a flurry of cover stories and network morning-show appearances, the scooter finds itself with more detractors than customers. Consumer and health advocates warn of possible injuries and rising obesity. City governments worry about chaos on their sidewalks. And key execs are heading for the exits. All that before the scooter is even available to consumers.

Workers at businesses and municipalities that have tested the transporters aren't exactly sending in rave reviews, either. "You can't keep warm if you're not walking," says a

SPUTTERING:
Founder
Kamen on
the personal
transporter



postal worker in Concord, N.H. "end up like a frozen popsicle on a st

In the latest sign that all is not with the privately held Segway LLC president, George Muller, the highly regarded former president of Sub America, resigned in late December less than a year on the job. Muller said he left because he decided he didn't want to uproot his family by moving closer to the company's Manchester (N.H.) headquarters. That may be. His resignation also came right after the departure of another key executive, Vernon R. Loucks Jr., a close friend of Kamen's and former CEO of Baxter International Inc., was named CEO. Muller of his next move: "I'd like to have the top job."

Muller's departure comes as a blow to the company, which was counting on his automotive sales-and-marketing expertise to help launch the Segway. It follows earlier turmoil at the young company. The prior president and three senior marketing execs have quit in the past two years. "I was disappointed that he left," says Kamen of Muller's departure. "He has a lot of experience with dealership marketing, and distribution, and so on. Or later, the company has to go the other way."

Make that later. Kamen says the planned March launch of sales

Amazon.com Inc. remains on track. The online retailer will be the exclusive seller of the scooter, which will retail for \$4,950 on the street.

The company has no plans as yet to sell the Segway in stores. "Should we sell it like consumer products or cars or jet skis or snowmobiles?" says Kamen. "It's not clear, so we're looking at various options."

Until the company figures that out, it seems to be placing its hopes on selling to the cash-strapped local governments that have dissed the vehicle as a potential hazard. In December, San Francisco banned it, while Sacramento, Santa Cruz, and other California cities are considering similar action. Some

states, including Massachusetts, New York, and Texas, have yet to make the scooter legal on their sidewalks. And though the top speed is 12 mph, pending legislation elsewhere would restrict it to 7 mph.

Cover stories and morning news shows put the Segway on the map a year ago. But its chances of becoming the little scooter that could look increasingly iffy.

By Faith Keenan in Boston

In Business This Week

EDITED BY ANNE NEWMAN

CAUTIOUS INTEL, WORRIED INVESTORS

INTEL IS HAVING A HARD TIME erasing the gloom that has clouded the semiconductor industry's fortunes. On Jan. 14, the Santa Clara (Calif.) chip-maker reported fourth-quarter earnings that handily beat analysts' expectations. Intel said fourth-quarter profit nearly doubled, to more than \$1 billion, from \$504 million a year earlier, as price wars abated. Sales rose slightly, to \$7.16 billion, from \$6.98 billion a year earlier. But investors focused on news that the company plans to cut spending sharply on new manufacturing plants until strong demand returns. With one of the world's largest technology companies playing it safe, Wall Street is worried that the technology train wreck will continue for months. Analysts say it's too soon to tell whether Intel is being a worrywart or whether a strong recovery in

demand really will not arrive until 2004.

MICKEY IS STILL IN THE MOUSE HOUSE

MICKEY MOUSE CAN SLEEP A little more easily. Copyright protection for Mickey, Minnie, and Donald Duck can be extended to 95 years, the Supreme Court ruled in a 7-2 decision that upheld passage of the 1998 Copyright Term Extension Act. Media companies like Walt Disney, which maintains Mickey Mouse's rights, had lobbied Congress to extend the current 70-year protection. The legislation was appealed to the high court in 1999 by Eric Eldred, an Internet hobbyist in New Hampshire who wanted to build a free library of characters for the Net. Mickey Mouse first appeared in the 1928 short *Plane Crazy*.

A RED LIGHT FOR GENE THERAPY

THE ONCE-PROMISING FIELD OF gene therapy has suffered another setback. On Jan. 14, the Food & Drug Administration put 27 clinical trials on hold until it decides whether or not there are dangerous side effects. The action was prompted by a new case of a leukemia-like disease in a child being given new genes in a French trial. The French researchers are attempting to cure "bubble boy syndrome" by inserting a gene that enables children to build a working immune system. But in some cases, it appears that the procedure can damage blood cells, causing them to multiply and create the leukemia-like condition.

DOES K MART HAVE A ROAD MAP?

KMART ON JAN. 14 UNVEILED plans to get out of Chapter

HEADLINER: TERRY SEMEL

TWO CHEERS FOR YAHOO!

When Terry Semel took over the helm at Yahoo! 20 months ago, many insiders blanched. After all, what did the former Warner Bros. exec know about running an Internet portal?

Now, some skeptics are being won over. On Jan. 15, Yahoo announced a 2002 profit of \$43 million, after a 2001 loss of \$93 million. Yahoo's revenues jumped 33%, to \$953 million.

Indeed, Semel's boldest moves may be paying off. A broadband-access deal with SBC Communications added nearly \$10 million to fourth-quarter sales, estimate analysts. And a partnership with Overture Services to

sell ads on its search-result pages should garner \$140 million in 2003. Most encouraging is Net advertising revenue, which grew 32%, to \$178 million, in the fourth quarter. Semel expects 20% growth in ad sales for 2003.

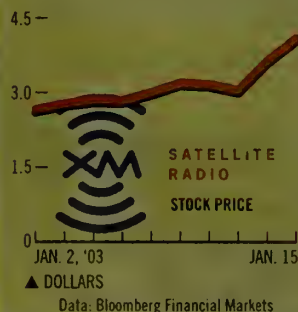
But he can't rest! Although Yahoo's stock rose 36%, to \$19.58, in the past three months, it fell 6% on Jan. 15 in after-market trading, in part because of concern that reliance on Overture masks otherwise mediocre results. And with acquisitions of search-technology firm Inktomi and career site HotJobs, Yahoo must prove it can execute across multiple fronts. *Ben Elger*



CLOSING BELL

RADIO FLYER

XM Satellite Radio's stock is enjoying a nice ride after falling 75%, to about \$3 a share, in the past year. General Motors said it plans to offer XM's 101-channel satellite-radio service in 44 of its 57 models in 2004, up from two models last year. From Jan. 14, XM's stock rose 34% in two days, to \$4.11 a share.



11 bankruptcy by late April—obtaining \$2 billion in exit financing, closing 326 more stores, and laying off at least 35,000 workers. But the discount retailer's strategy remains murky. The new plan eschews two previously considered options: shrinking by region or focusing on superstores that sell groceries. The closings will be scattered across 44 states and include 60 supercenters. Kmart officials say they'll stick with their plan for frequent sales and brand-name franchises such as Martha Stewart and Joe Boxer—the same strategy that led it into bankruptcy a year ago.

WORLDCOM'S RACE AGAINST THE CLOCK

FOR WORLDCOM, TIME IS OF the essence. New CEO Michael Capellas fears big customers will flee if the telecom giant doesn't emerge

from bankruptcy protection by the end of April. The ambitious, given that WorldCom filed for protection late July. Capellas told employees on Jan. 13 that will slash operating expenses by 4% more, meaning more layoffs in addition to the 17,000 jobs already cut. But WorldCom still needs to expedite new services in development. Many of the services will be aimed at small and midsize businesses—a new and essential market for WorldCom, says Capellas.

ET CETERA...

- Seven Datek execs and traders agreed to a record fine of more than \$70 million
- Apple Computer expects flat sales rather than the typical second-quarter decline.
- Wal-Mart Stores said it will jump into the bidding for British food retailer Safeway

The idea behind our environmental technology.



When it comes to addressing green issues, we've always driven technology at full speed. After all, it's helped us set new standards for clean cars in America. Consider the natural-gas-powered Civic GX. It's the only car in the world to meet the EPA's most stringent emission standard for internal-combustion vehicles. Then there's the Civic Hybrid Sedan, a part-gasoline, part-electric wonder that can drive over 600 miles on a single tank of gas*. What's next? Fuel-cell technology from Honda and zero-emission cars for America. It's no wonder that when we see green, we go.

HONDA
The power of dreams.™

*Based on EPA mileage estimates for Civic Hybrid with MT (46 mpg city/51 mpg hwy). Actual mileage may vary. The Civic GX has been certified by the EPA as Tier 2 Bin 2 and ILEV. To learn more, visit our Web site at honda.com. © 2002 Honda North America, Inc.

2002 Imported by William Grant & Sons, Inc., New York, NY 10038. Glenfiddich is a registered trademark of William Grant & Sons Ltd. 40% Alc. By Vol. Our Family Reminds You Enjoy The Whisky Responsibly.

Glenfiddich
SINGLE MALT
SCOTCH WHISKY

The
independent
spirit.

This is the story of a malt
whisky made without compromise.

Distilled by an independent
family company. Matured at
own highland distillery
for a full 12 years. Bottled as
Glenfiddich, which means
'valley of the deer.' Discover
Savour it. Enjoy it.



Imagine being the
single catalyst for a
million possibilities.

Information Solutions
Supply Solutions



From healthcare supply and health management, to automation and information solutions, we're providing products and services designed to reduce costs and improve quality across healthcare. Eliminating errors. Reducing inefficiencies. And giving healthcare professionals more time to be with their patients. Wherever you contribute within McKesson, you can work to create solutions that directly impact patient care. And by joining our dynamic team, you'll work with a Fortune 31 leader to make a real difference in the future of healthcare as we know it. The possibilities are endless. That's the Power of You.

McKesson Corporation offers a wealth of opportunity for individuals with a desire to make a difference in providing industry-leading, integrated healthcare services and solutions. Individuals with the passion to be a part of our entire continuum of patient-focused care. It's you and McKesson—empowering healthcare. Visit mckesson.com/careers for more information.

THE POWER OF **YOU.**

McKESSON

Empowering Healthcare

www.mckesson.com/careers



Make the best executive decision...
advertise in **The MNI Executive Network.**



MEDIA NETWORKS, INC.

Local Ads. National Mags.

877.ASK.4MNI

www.mni.com

AOL Keyword: MNI

EDITED BY PAULA DWYER

MANY BLACKS ARE ANGRY—AND NOT JUST WITH REPUBLICANS

Despite George W. Bush's talk of compassion and inclusiveness, relations between African Americans and the Republican Party are in tatters. Former Senate GOP Leader Trent Lott's seeming nostalgia for segregation reinforced the image of a party dominated by hard-right Southerners. And when Bush's Jan. 7 renomination of controversial Mississippi judge Charles Pickering has sent civil rights groups into a further frenzy. Prominent black conservatives are exasperated that GOP leaders talk about minority outreach but fail to embrace diversity. "We've heard that before—show us the beef," says former Representative J. C. Watts (R-Okla.), the sole African-American Republican in Congress until his 2002 retirement.

With anger in Black America smoldering, you'd think the Democrats would be sitting pretty. Not so. A significant number of black voters believe Democrats take their most loyal constituency for granted. "The Democratic Party," says veteran Representative John Conyers Jr. (D-Mich.), acts as if it "needs blacks for elections and not in between."

The dilemma for Democrats is that the unrest springs from economic pain as much as political ire. The end of the '90s boom and a "jobless recovery" have left many blacks' hard-won economic gains at risk. "The phrase in the black community is: If whites get a cold, blacks get pneumonia," says David Bositis, a senior analyst at the Joint Center for Political & Economic Studies, Washington think tank specializing in minority issues.

Homeownership is a case in point. The number of black homeowners grew by 30% in the '90s, compared with 13% for whites. Under President Bush, however, black homeownership has dipped slightly. Black joblessness—which during the boom dropped below 8%, its lowest level in 30 years—has been rising more than twice as fast as white unemployment and is now 11.5%. And median black family in-

come fell 3.4% in 2001—more than twice the loss of whites.

Ironically, despite black anger at the GOP, that's trouble for Democrats. In his nascent Presidential campaign, civil rights activist Al Sharpton is accusing Dems of ignoring the poor while chasing suburban swing voters. Social inequity also led Conyers and Representative Charles B. Rangel (D-N.Y.) to push for a new military draft (page 52). They say leaders are more likely to go to war if poor and minority youths—not kids of the wealthy and powerful—are on the front lines.



LOTT: *Southern discomfort*

Black politicians also have a list of grievances with Democrats. Members of the Congressional Black Caucus feel slighted by the recent selection of House Democratic leaders. And some activists want to replace Democratic National Committee Chairman Terry McAuliffe, who elbowed aside Maynard Jackson, Atlanta's first African-American mayor, in 2001.

Blacks are divided over the candidacy of Sharpton, who has the support of just 12% of African Americans, according to a Jan. 4-6 Zogby International Poll. But the New York minister's candidacy has Democrats in a bind. If other candidates respond to Sharpton by moving leftward, they could lose the centrist voters they covet. If they confront him, they risk alienating urban liberals, who could doom Dems to defeat by staying home on Nov. 2, 2004.

Democrats hope Republicans solve this problem by further inflaming blacks. Case in point: Bush's Jan. 16 intervention on behalf of white students challenging the University of Michigan's affirmative-action policy (page 96). "Right now, the unifier is opposition to Bush and the Republicans and less a proactive program from the Democrats," says Emory University political scientist Robert A. Brown. Revenge against Republicans may well motivate a big black turnout in 2004. But it's not something Democrats can take for granted.

By Richard S. Dunham, with Laura Cohn

CAPITAL WRAPUP

DRUG RELIEF SOON?

For three years, Congress has struggled to enact a prescription-drug benefit for 40 million elderly and disabled Medicare recipients. Now, key staffers are quietly telling lobbyists not to expect a measure without savings from broader Medicare reforms. President Bush is expected to echo that view in his Jan. 28 State of the Union address. One problem: The parties disagree on how to overhaul Medicare, complicating prospects for a law to benefit this year.

TARGETING TAX SHELTERS

► When Republicans won control of the Senate in November, business lobbyists hoped Congress would go easy on corporate tax shelters. But the new GOP chairman of the Senate Finance Committee, Iowa's Charles E. Grassley, wants a renewed crackdown, especially on companies that move offshore to trim their tax bills. Grassley will use confirmation hearings for Treasury Secretary nominee John W. Snow to demand that President Bush turn up the heat on shelters.

TECH VS. HOLLYWOOD

► Software and hardware outfits will launch a \$1 million public-relations campaign on Jan. 23 to fend off Hollywood efforts to win piracy protections from Congress. The Alliance for Digital Progress, which includes Microsoft, Intel, Dell, and others, prefers voluntary measures against piracy without congressional interference. On Jan. 14, the group said it will make nice with another longtime foe, the recording industry, to find ways to protect digital content without legislation.

ITALY

AND THE ECO-MAFIA

Billions are made by illegally dumping toxic waste—with little public outcry

First, the pond went black. Then, the fish started to die. Finally, the authorities condemned the land.

Stefano Galli sweeps a trembling hand over his poisoned acres and tells the tale of a deal too good to be true. After buying seed at a local agricultural-supply store on a spring day in 1999, the stout, 67-year old farmer from Umbria (Galli is a pseudonym) was approached in the parking lot by a sales agent who persuaded him to test a new fertilizer. The deal: 1,200 pounds for free, with a handshake to purchase more in the future if he was satisfied. Unbeknownst to Galli, the black mulch he then spread across his wheat, corn, and vegetable fields was untreated, highly toxic industrial waste. After the first heavy rains, fish started floating belly-up on the surface of a pond that catches runoff. "I feel my land is dying before my eyes," says Galli, who fears that the farm held by his family for generations is now worthless.

The damage spreads far beyond Galli's rolling fields. Italian magistrates confirm, based on wiretaps, that criminal groups won bids to haul off toxic sludge

from factories in the north but never treated the waste, as promised. Instead, they dumped their poisonous cargo on some 25,000 acres of farmland in Umbria, one of Italy's most beautiful and productive regions. The Environment Ministry estimates the cleanup cost at \$1.5 billion.

A three-year police investigation, dubbed Operation Greenland, has recently yielded a formal request for indictments against 28 of Umbria's alleged despoilers. Suspect No. 1 is Alberto Paggi, the owner of Ecoverde, a waste-disposal company near the town of Trevi. He is accused by the public prosecutor of waste trafficking, a felony punishable by up to eight years in prison. Prosecutors say Paggi hawked toxic sludge in the guise of fertilizer and dumped industrial poisons illegally in national parklands in the south. Paggi's lawyer, Donatella Tesei, says the state to date has not produced any proof of wrongdoing by her client.

The Greenland/Ecoverde case, now in pretrial proceedings, marks a new, aggressive stage in Italy's struggle against one of the biggest environmental crimes

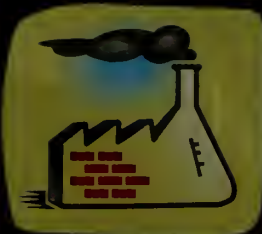
of the 21st century so far. Italian officials have known for more than a decade that mob-linked businesses were charging manufacturers cut-rate prices to haul away mercury, lead, battery acid, and other byproducts of industry. They would then dump it—untreated—in the countryside. But weak environmental laws and powerful industrial lobbies have thwarted change. Now, the business takes in an estimated \$7 billion a year and involves 22 criminal groups, according to parliamentary commissioners and law-enforcement officials. With minimal operating costs, traffickers gross from \$2,000 to \$10,000 a truckload. "Mafia clans consider waste [trafficking] a real business—one that approaches the size of some government budgets," says Senator Paolo Russo, president of the parliamentary commission on waste trafficking.

In the past year, Italy has struck its first serious blows against traffickers. Legislation passed in 2001 finally makes trafficking in waste a felony (it was

HOW CRIMINALS INFILTRATE THE BUSINESS OF WASTE

CREATING THE WASTE:

Factories in northern Italy produce industrial byproducts, including highly toxic sludge and ash. By law, toxic waste must be identified and treated before disposal.



CAPTURING CUSTOMERS:

Criminal gangs create shell companies that win waste-hauling and disposal contracts by underbidding legitimate competitors by as much as 90%.



COVERING THE TRAIL:

They send rental trucks to haul the sludge to warehouses, where false documents are issued stating the poisonous cargo is not dangerous.





ple misdemeanor before) and permits
stapping of suspected criminals.
ned with the new law, prosecutors ar-
ed more than 29 individuals last year
charged them with waste-related
es. Current investigations could pro-
e dozens more arrests. "Until now,
se] criminals didn't believe there
ld be repercussions for their acts.
v, they're getting the picture," says
or Antonio Menga, head of Italy's six-
r-old environmental police force.

The question is whether Italy's tardy
nsive can combat an industry that
grown to such frightening propor-
s. "Italy is way behind [the rest of
ope] in dealing with refuse," says
ceto Busà, a chemist who was con-
ed for a parliamentary commission
vestigating trafficking.

aw-enforcement officials battling
fickers testify to the daunting di-
nsions of the problem. In October,
forestry police released the results
n aerial survey identifying 705 high-

ly toxic illegal dump sites, from the ver-
dant farmlands north of Naples to the
hills of Umbria to the Adriatic coast
near Bari. The number of illegal dumps,
including all types of waste, tops 4,000.

Medical experts, meanwhile, are trying
to figure out just how deadly the sites
are. On Mar. 28, the public prosecutor's
office in Santa Maria Capua Vetere near
Caserta in Campania will host a national
conference to present preliminary evi-
dence of health problems linked to toxic
waste. "There is no doubt about the con-
nection between illegal toxic dump sites
run by the eco-Mafia and the increase
in fatal illnesses" in the Caserta region,
says Carmine Antropoli, a surgeon and
cancer specialist at southern Italy's
largest hospital, Cardarelli, in Naples.
Antropoli has studied the sharp increase
in leukemia, colon cancer, and stomach
tumors in patients living in the area be-
tween Naples and Caserta. Physicians
and investigators worry that illegal
dumps containing toxins such as heavy

RUINED BEAUTY

Magistrates such as Ceglie (above)
fear that toxic sludge has already
seeped into Italy's groundwater

metals are polluting groundwater and
farmland. "We are pressuring health au-
thorities to place a permanent observa-
tory here to monitor the rate of tumors,"
says Donato Ceglie, a magistrate from
Santa Maria Capo Vetere and a leader in
Italy's battle against waste trafficking.

The estimated costs of cleaning up all
of these sites range into the hundreds
of billions of dollars. "What we have dis-
covered is a fraction of what's out there,"
says Renato Nitti, investigating magis-
trate in Bari, who arrested six business-
men in April on charges of trafficking
and dumping more than 110,000 tons of
untreated waste. What's "out there" is
enough to give health officials night-
mares. Roughly 12 million tons of indus-
trial waste in Italy disappear every year,

WASTE MANAGEMENT

THE GOES:

ers haul most of
th to regions
lled by organized-
gangs and dump it
caves, or bodies of
Some untreated

is delivered to sites approved for
mping of nondangerous waste.



2 Businesses controlled by
criminals sell toxic
industrial sludge to farmers,
telling them it's fertilizer,
thus polluting some of Italy's
most productive agricultural
regions, such as Umbria and
Campania. Some of the
poisonous waste is even dumped in
national parklands in southern Italy.

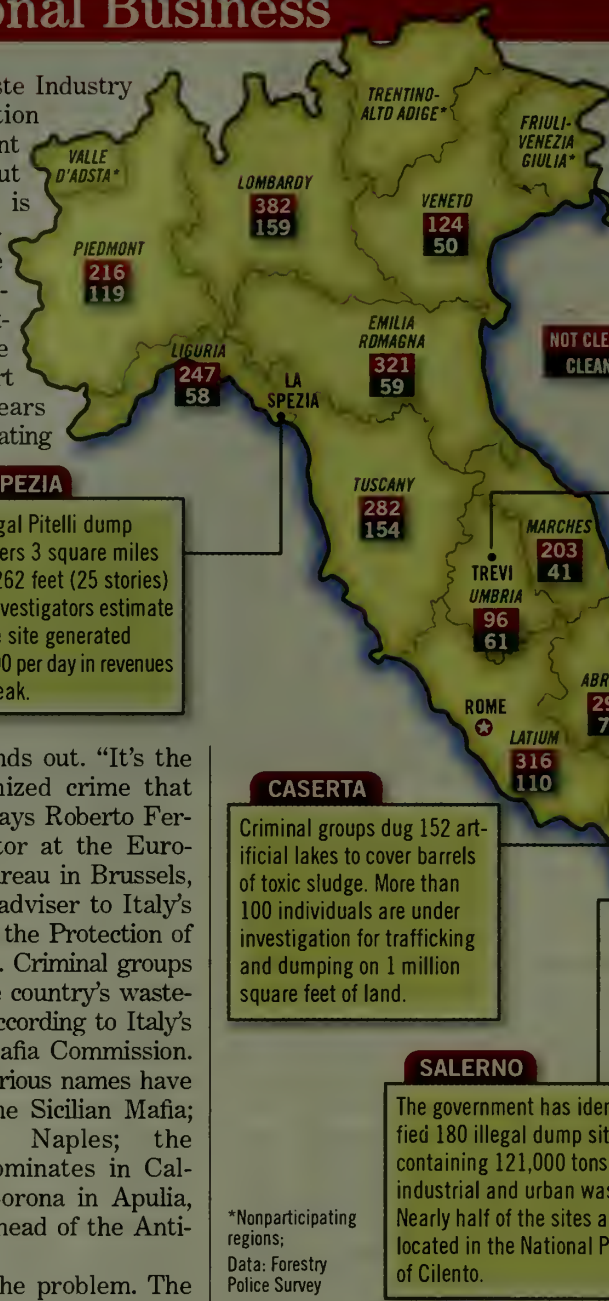
3 Toxic and radioactive waste is
loaded onto a boat and sunk or
shipped to poor or developing
countries. The Italian Mafia also ships
waste from northern Europe or the
former Soviet Union into Italy for
disposal or routing elsewhere. Some
criminal clans bid on and win lucrative
government cleanup contracts to haul
toxic waste from illegal dumps.

according to Italy's Waste Industry Employers' Association (FISE). That's the amount produced by factories but whose waste disposal is not accounted for by legitimate handlers. Some 330,000 tons of this missing refuse are highly toxic, FISE says. "This is the type of damage you start to pay for 20 to 30 years later," says Asti investigating magistrate Luciano Tarditi, who uncovered the infamous Pitelli dump near La Spezia.

Every country in Europe can point to cases of illegal dumping, but Italy stands out. "It's the direct control of organized crime that makes Italy different," says Roberto Ferrigno, EU Policy Director at the European Environmental Bureau in Brussels, who has worked as an adviser to Italy's National Association for the Protection of the Environment (ANPA). Criminal groups control up to 30% of the country's waste-management business, according to Italy's highly respected Antimafia Commission. All of the country's notorious names have a hand in the trade: the Sicilian Mafia; the Camorra from Naples; the 'Ndrangheta, which dominates in Calabria; and the Sacra Corona in Apulia, says Pier Luigi Vigna, head of the Antimafia Commission.

Industry is part of the problem. The price for environmentally responsible disposal of the most dangerous industrial waste averages roughly 50¢ a pound, say managers of legitimate waste companies, while traffickers may bid as low as 5¢ per pound. "If industry wants to reduce its costs, it just closes its eyes," says Luciano Morelli, general manager of Ecobat, a \$500 million Milan-based business that disposes of used batteries. Corrado Scapino, vice-president of FISE and president of Barricalla, a waste-disposal company outside Turin, says illegal traffickers siphon off the business needed to justify investment in modern waste-management facilities.

That's why, in the



LA SPEZIA
The illegal Pitelli dump site covers 3 square miles and is 262 feet (25 stories) deep. Investigators estimate that the site generated \$500,000 per day in revenues at its peak.

CASERTA
Criminal groups dug 152 artificial lakes to cover barrels of toxic sludge. More than 100 individuals are under investigation for trafficking and dumping on 1 million square feet of land.

SALERNO
The government has identified 180 illegal dump sites containing 121,000 tons of industrial and urban waste. Nearly half of the sites are located in the National Park of Cilento.

TOXIC TIME BOMB

Italy's 4,000-plus illegal dumps include 705 highly poisonous sites

TREVI
Prosecutors shut waste-disposal company Ecoverde, saying it sold toxic sludge as fertilizer to farmers, who spread it over 24,000 acres. Estimated cleanup cost: \$1.5 billion.

gangs star dumping in 1980s. In 19 Roberto Zanelli (not his real name) a resident of Naples by Ruffino, struggled to obtain information from officials about the health hazards of a dump site's rancid odors and eye-stinging emissions. Ignored, Zanelli had his own tests done on samples and went public with the results: dangerous concentrations of heavy metals, dioxins, and poisonous pharmaceutical residues.

BARI
More than 110,000 tons of industrial waste have been trafficked and dumped at various sites throughout the region. Six men were arrested and charged with trafficking on Apr. 23, 2002.

After receiving an anonymous threat, Zanelli's home was searched by unknown assailants. He shot himself with a hunting rifle. Several weeks later, he was beaten badly and hospitalized, and he remains fearful of retribution. "After one daring to speak out was silenced, sidelined, or bought off," Zanelli says.



PITELLI DISASTER

One resident who asked questions was threatened and beaten

Eccoverde case, Spoleto prosecutor Manuela Comodi wants to force industrial bosses from northern Italy who hired Eccoverde to testify. If she can prove executives knowingly participated in trafficking—a tough hurdle—they could do jail time. Just making them testify may be a deterrent. "It is impossible that companies had no idea their waste was being disposed of under the table. The prices were too low to be credible," says Comodi. The prosecutors' work is complicated by the mob's heavy-handed tactics and the impediments of red tape. In the example of Pitelli on the Ligurian coast, magistrates say

off," Zanelli says. Then, in 1996, police unearthed mountains of lethal waste at Pitelli, including antiradar paint residues from military equipment. Prosecutors say Pitelli—now declared a national disaster area—was a key station for criminal waste trafficking, probably for gangs linked to the Camorra. More than 40 local officials were eventually charged by prosecutors with complicity in the disaster, and 10 were held in prison after investigating magistrates and forestry police unearthed evidence of bribery and collusion with public officials and politicians. A 1998 parliamentary report states that local authorities were not clear cooperative with magistrates' investigations. Officials in Pitelli didn't respond to requests for comment from *Business Week* but have told the Italian press that the dump's owner and the primary defendant, Orazio Duvia, is responsible

BUSINESS TRIVIA QUESTION

Number 41

_____ is the company that 400,000 businesses rely on for e-commerce.

- ☐ (a) VeriSign
- ☐ (b) VeriSign
- ☐ (c) VeriSign
- ☐ (d) VeriSign

We're also the company that enables 7 billion network connections every day. VeriSign has spent the last seven years building a secure infrastructure for the Internet. We'd like to do the same for your business. VeriSign can help you deploy a trusted infrastructure so you can conduct secure communications and transactions. Soon you'll know why 475 of the Fortune 500 use VeriSign.

Learn all you need to know about infrastructure security – and how VeriSign's managed network and security solutions can help you – by downloading our new Executive Portfolio on Digital Trust. Visit www.verisign.com/securitysolutions



■ PAYMENT SERVICES ■ TELECOMMUNICATION SERVICES ■
■ NETWORK AND SECURITY SERVICES ■ WEB IDENTITY SERVICES ■

© 2000 VeriSign, Inc. All rights reserved. VeriSign, the VeriSign logo, and other trademarks, service marks, and logos are registered or unregistered trademarks of VeriSign and its subsidiaries in the United States and in foreign countries.

for the wrongdoing. Andrea Corradino, Duvia's lawyer, didn't respond to requests from *BusinessWeek* for comment. But he has stated publicly that his client is "absolutely innocent of all charges and operated according to regulations." Duvia blames previous owners of the site for any toxic waste it contains.

The Pitelli investigation looked like the start of a crusade. Yet seven years later, because of the notoriously slow judicial system and a transfer of the case to another venue, the trial hasn't even begun—and 80 of the 100 accused individuals can no longer be tried because the statute of limitations has expired. "The atmosphere is degrading and disheartening," says a member of the citizens' committee in Pitelli.

Meanwhile, cleanup costs keep mounting. In the tiny Umbria hamlet of Montone, the town's mayor, Franco Carpecci, spent \$200,000, or 25% of his town's annual budget, to haul away waste from one farm after its owner received 80 truckloads of "mulch" from Ecoverde. When the cash-strapped farmer refused to pay to remove the stuff, the town was legally responsible to protect residents from health hazards.

Police and magistrates say tougher laws and penalties are vital to prevent disasters like that in Umbria from happening again. Environment Minister Altero Matteoli counters that current laws have plenty of bite, but he does want all waste to be treated locally. That would block the transport of waste to mob-influenced areas. Matteoli also wants to boost the number of incinerators. And the National Waste Observatory, a unit of the Environment Ministry, points to tests of computer chips that identify waste as it leaves the factory. That would eliminate the need for paper documents, which are easily falsified. "Better controls have to be carried out at the place of origin," says Massimo Ferlini, the observatory's president.

Italy's beleaguered magistrates, carabinieri, and forest police toil on, even as the odds remain stacked against them and activists warn of dire consequences. "A country that can't manage to outlaw toxic dumping has no future—not for itself and not for investors," says Enrico Fontana, national secretary at Rome-based Legambiente, an environmental group. In Italy, that message is only starting to sink in.

BusinessWeek online

For more on toxic waste and the eco-Mafia, go to the Jan. 27 issue online at www.businessweek.com.



BACK TO WORK: This San José meatpacking plant is reopening

ARGENTINA

THE GEARS START TO TURN AGAIN

A devalued peso gives the Argentine economy a lift

It has been years since San José, a small town on the eastern edge of the Pampas, Argentina's grassy plains, has had a New Year's worth celebrating. In 1997, San José's lifeline, the Vizental meatpacking plant, shut down, laying off 800 workers. Unemployment in the area climbed to 60%. Now San José's luck may be about to turn. Last year, J.P. Morgan Partners, the private-equity arm of U.S. bank J.P. Morgan Chase & Co., stepped in to rescue Vizental from bankruptcy. It has since pumped \$8 million into the business, and some workers are already busy readying the plant for a February reopening. Alfredo Irigoin, a Buenos Aires-based J.P. Morgan partner, says the firm is eager to begin exporting cuts of premium Argentine beef, taking advantage of a sharply devalued peso. "This would have been impossible a year ago," he says.

The rusty gears of Argentina's economy are beginning to turn again. Recently released numbers show that industrial production rose a seasonally adjusted 2% in November—the first year-over-year increase in 27 months. There are other signs of life. In

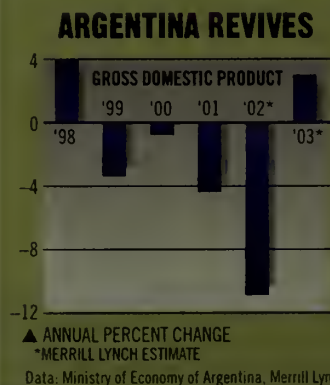
ranito," Indian Summer. "Whether we're on the cusp of a full-blown recovery is too early to say, but there's no doubt the economic indicators are solid," says Guillermo Mondino, an economist with consultancy LatinSource. Investment banks are forecasting 3% to 6% growth after last year's 11% contraction.

Call it the devaluation dividend. Argentine industries like textiles that cut out to imports during the decade the peso was pegged to the dollar are seeing renewed demand. Analysts estimate that in 2002, local companies substituted cheap Argentine goods for \$7 billion in imports. "Wherever possible we've gone from buying 100% of our fabrics abroad to ordering 100% locally," says Mario Rodríguez Giesso, president of Giesso, a leading men's clothier.

But investors with dollars to spend are picking through the rubble with care. True, the peso has stabilized after shedding 70% of its value, and inflation is abating. Yet the country's outlook remains hazy. Uncertainty over economic policy has delayed the signing of a monetary agreement with the International Monetary Fund, although a deal now seems imminent. Presidential elections scheduled for April could usher in populist leadership. "There are a lot of

credible bargains out there, but until the air clears, we won't be signing any deals," says Diego Speranza, who manages an Argentine real estate fund set up by New York-based Cushman Wakefield Inc. The weary and wary of Argentina can only hope that this Indian summer turns into an economic heat wave.

By Joshua Goodman in Buenos Aires



EDITED BY ROSE BRADY

IS IT A MIRAGE? GLIMMERS OF HOPE IN THE HOLY LAND

It's probably too much to hope that there could be a break in the seemingly endless Israeli-Palestinian conflict. But some signs are pointing in that direction.

At a high-profile conference in London on Jan. 14, Palestinian delegates promised via video link to implement political reforms long demanded by the West. In Riyadh, press reports say Saudi Crown Prince Abdullah is dusting off his plan of last year. One Riyadh source says top Saudis told the Bush Administration to hurry up and finish its mess with Iraq so that it can turn to the Palestinian question. In Israel, too, "[Prime Minister Ariel] Sharon knows

Bush will be looking for progress on the Palestinian front" after the Iraq standoff is over, says Gerald Steinberg, a political scientist at Bar-Ilan University in Tel Aviv.

The most intriguing possibility is that Israeli elections will create an opening for talks. Sharon's Likud Party will likely win the largest share of the vote on Jan. 28. But the tough-talking Prime Minister won't have anything like the freedom to maneuver he anticipated when he called early elections three months ago. Recent allegations that Sharon's 1999 Likud leadership campaign

received an illegal \$1.5 million loan have cut sharply into Sharon's lead and undermined Sharon's credibility.

Sharon probably won't be kicked out of office, but his weakened position may force him to show more flexibility on a range of issues, from public finances to the Palestinians, which he has so far. Polls predict that Likud will win 32 seats in the election and Labor 20, while a once-obscure centrist secular party, Shinui, will likely come in third with 16 seats in the 120-member Knesset. To forge a government, Sharon is angling for a broad-based coalition rather than lining up with other right-wing and religious parties. The

latter would be a recipe for paralysis, he believes. That leaves Labor and perhaps Shinui as Sharon's partners. "A national unity government will be the only option after the elections," says Yosef "Tommy" Lapid, Shinui's leader.

A 67-year-old former journalist, Lapid has attracted voters alarmed at the ultra-religious fringe's influence and disgusted with the major parties for failing to restore security. Lapid doesn't offer radical solutions to the conflict. But he does argue for abandoning Jewish settlements deep in the West Bank and Gaza. With Labor's leader, Amram Mitzna, stumping for a quick resumption of negotiations with the Pales-

tinians, Shinui's presence in government could create enough critical mass to get Sharon to agree to talks. Mitzna has vowed not to rule with Sharon, but he could be forced to play ball by Labor elders such as Shimon Peres.

Of course, negotiators will have to find a way to deal with Palestinian leader Yasser Arafat, whom Bush and many Israelis don't want at the table. Arafat may agree to stay in the background, letting a new Palestinian Prime Minister handle the talks. A huge gulf also remains between Sharon's vision of a Palestinian state and what the Pales-

tinians might accept. Sharon has talked about "painful concessions" and endorsed Bush's 2005 target for a Palestinian state, but he will take plenty of convincing to make substantive offers. Still, there is another side of the equation that offers some hope. All but the most extreme Israelis—and Palestinians, for that matter—now want a way out of the violence that has turned the West Bank and Gaza into humanitarian disaster zones. Palestinians are making tentative efforts to change their leadership. The frustrated Israeli electorate won't have infinite patience, either.

By Neal Sandler in Jerusalem and Stanley Reed in London



WEAKENED: Sharon may need Labor

GLOBAL WRAPUP

BRITAIN'S ANTI-TERROR SWEEP

The death of a police detective on Jan. 14 in a botched raid on an apparent terrorist hideout in Manchester has raised concern that Britain may be a target of Islamic militants. The officer was stabbed by a suspect who escaped custody while the apartment was being searched. Two men were arrested. The operation was linked to a raid on Jan. 5 in London in which police found a small laboratory and traces of ricin, a deadly toxin. Four men of Algerian origin were charged with ter-

rorism and chemical weapons offenses. While the police are saying little, they seem to be racing to bust up cells before they can strike. But the motives of the alleged terrorists remain obscure. One suspicion is that Algerian militants, possibly under al Qaeda's influence, are switching their efforts from their home country, which has been racked by political violence for years, to Europe.

TACKLING CRIME IN MEXICO CITY

► Rooftop police snipers, bomb-sniffing dogs, 300 elite cops, and a 16-car mo-

torcade featuring armored vehicles were deemed necessary to protect former New York City Mayor Rudolph Giuliani when he visited crime-ridden Mexico City on Jan. 14-15. His consulting company will be paid \$4.3 million by leading local businesspeople who are tired of kidnappings, a sky-high murder rate, and corrupt police officers. Giuliani told reporters that crime could be "dramatically" cut in four years if his "zero tolerance" plan is implemented. But Mexican officials have their doubts: Corrupt cops, if ousted, tend to return to the streets as crooks.

COMMENTARY

By Paul Magnusson

THE DRAFT: AN IDEA WHOSE TIME HAS COME AGAIN

At the height of the Vietnam War, I paid my grad-school tuition by serving as a resident adviser in an undergrad dorm. I was besieged by anxious young men with questions about the military draft, so I read the regulations and became a volunteer draft counselor. It was a discouraging experience.

I offered students help in writing the essay required for conscientious objectors. I discussed such alternatives as the National Guard, working in hospitals, or enlisting in a noncombat specialty. But most college students wanted an easier out. One popular method: stay up all night on amphetamines, run up and down stairs, and appear at the required physical with dangerously high blood pressure. Faked drug addiction, feigned mental illness, and starvation diets were also popular.

In three years of counseling students and walk-ins from the surrounding working-class neighborhood, I noticed a disturbing pattern: The well-off students at Syracuse, a private university with high tuition, assumed they were entitled to a life of civilian pursuits. Local youths, however, harbored no such presumptions. Although reluctant to leave friends and family for a war they didn't understand, they went because they had fewer alternatives.

I thought of this when Democratic Representatives Charles B. Rangel (N.Y.) and John Conyers Jr. (Mich.) claimed that the poor and African Americans are more likely to come home from war in body bags. Their idea: two years of military or public service by all men and women age 18 to 26, with no college deferments.

Rangel, a Korean War vet who was wounded in combat, notes that just four members of Congress have children in the military and that only one is in the enlisted ranks. He says lawmakers overwhelmingly back President George W. Bush's saberrattling because their family members are unlikely to perish in Iraq. Conyers, who was an Army officer in Korea, agrees, insisting that "to contain a conquered people [in Iraq] ... we'll eventually have to restore



BLACKS IN THE MILITARY: OVERREPRESENTED?

AFRICAN AMERICANS MAKE UP:

12% of the population but:

21 of enlisted Armed Forces

15 of combat troops

36 support troops

27 of medical/dental personnel

IN DESERT STORM, BLACKS ACCOUNTED FOR:

23 of all troops

11 of combat deaths

WHITES ACCOUNTED FOR:

71 of all troops

86 of combat deaths

Data: Defense Dept.

a fair Selective Service System."

Casualty figures don't make much of a case for bringing back conscription for racial-equality reasons. Pentagon officials concede that African Americans enlist at "modestly" higher rates and stay longer than whites raising blacks' overall participation in the military to 21% (table). When it comes to combat deaths, however, blacks are represented roughly in proportion to their numbers in the overall U.S. population—about 12%. Some 12% of Americans killed in Vietnam were black, as were 15% of those killed in all later conflicts, according to Charles B. Moskos, a military sociologist at Northwestern University.

But Rangel and Conyers have a point when it comes to class fairness. The richest 20% of families don't send their kids to boot camp, Pentagon figures show. "Actually, it's mostly the white working class that is going to die in Iraq," says Moskos, a 1956 draftee who wants to return to a reformed draft. One reason for higher black participation but lower combat deaths: Greater percentages of blacks enter medicine and other noncombat specialties to train for civilian careers.

The Pentagon opposes restarting the draft, citing the inefficiency and unfairness of the Vietnam era when students were exempted. "What was left was sucked into the intake, trained for a period of months, and then went out, adding no advantage over any period of time," says Defense Secretary Donald H. Rumsfeld.

In reality, Rumsfeld and Rangel-Conyers are not far apart. Among the 4 million Americans who turn 18 every year, some would enlist; others would choose national service. The military would effectively remain a volunteer corps. Best of all might be the effect on the country of the shared sacrifice of its citizens. That's a concept that the White House, anxious to cut taxes of the most affluent while requiring sacrifice of working-class soldiers, ought to consider.

Magnusson covers homeland security from Washington.



Your business.
Your needs.
Your choice.

It's high time someone in the software industry started listening to your needs. And standing up for your rights. Like the right to have month-to-month licensing. And the right to no upfront payments. That's why we offer FlexSelect LicensingSM to all our customers. This revolutionary approach to licensing is based on doing business on your terms, not ours. So you can have just the software you need, just when you need it. Check it out today. And find out how FlexSelect Licensing is raising more than just eyebrows in the software industry. It's raising standards.

ca.com/flexselect

Introducing FlexSelect LicensingTM



Computer Associates[®]

COMMENTARY

By Mike France

THE SEC'S PLAN SHOULDN'T MAKE LAWYERS SQUAWK

Say a corporate attorney learns that his client is embezzling money to buy a Renoir or planning to boost earnings by selling the company's own oil refineries back to itself for a big profit. Under the law in 46 states, the lawyer has no obligation to reveal the wrongdoing.

Why? Sacred professional rules—notably attorney-client privilege—forbid lawyers from disclosing their customers' secrets. These restrictions are intended to assure people that they can be completely candid with their advocates. No other advisers—neither accountants, bankers, nor shrinks—can give clients such assurance. And no other country protects attorney-client privilege as vigorously as the U.S. does.

Revelations that lawyers behaved less than honorably in the recent corporate crime wave, however, have convinced the Securities & Exchange Commission that the rules must change. It has proposed requiring attorneys for public companies to quit if they believe their clients are committing a "material violation" of the law—and then inform the agency of their resignation. The new regulations must be voted on by Jan. 26.

This "noisy withdrawal" provision has produced near-apoplectic panic in the profession. While lawyers would not be asked to give the SEC any details about what their clients might be doing wrong, bar associations are warning that the attorney-client privilege will erode, and execs will lose trust in their counselors. "If somebody thinks you are going to expose them, they won't talk to you," says American Bar Assn. President Alfred P. Carlton Jr., who is lobbying against the new rules.

The lawyers' fears should not be taken lightly. Anyone who has ever been in a tight spot knows how reassuring it is to have a loyal defender in one's corner. But while it is impor-

tant for lawyers to protect their clients, that is not their only obligation. They are also officers of the court who vow to uphold the law in a grandiose ceremony on the day they're admitted to the bar. The oath they utter with their arms raised isn't meaningless. At a certain point, attorneys have a social duty to pre-



A MISHMASH OF RULES

The SEC wants new whistleblower responsibilities for lawyers. Now, their duties when discovering fraud vary from state to state. Attorneys are:

REQUIRED to turn in their clients in four states: Florida, New Jersey, Virginia, and Wisconsin

ALLOWED to blow the whistle in 37 jurisdictions, including New York and Texas

FORBIDDEN from doing so in nine states, including California, Delaware, and Missouri

vent criminal CEOs from ripping off innocent investors.

The recent wave of scandals shows that the balance between client and social duty is way out of whack. Lawyers can now help managers find creative ways to ignore the law with almost no risk of punishment. At big firms, "the role of considerations of right and wrong has diminished," says Philip K. Howard, a litigator in the New York office of Covington & Burling. "Pressure is great to come

up with the answer the client wanted based on a technicality."

The SEC's proposed change will make lawyers think twice before blessing dubious tax shelters or trading strategies. And despite the AB hysteria, it won't subvert the legal system by making businesspeople frightened to confide in their attorneys. The fact is, execs can't draft legal documents. They often have no choice but to talk to lawyers. In the four states where attorneys are ready required to blow the whistle on wrongdoing—Florida, New Jersey, Virginia, and Wisconsin—there's no evidence that corporate officers shun attorneys. "The notion that the information flow to lawyers is going to dry up is a myth," says New York University School of Law professor Stephen Gillers.

A second critique of the noisy-withdrawal rule is that the SEC will be bombarded with resignation announcements. Every time a law firm disagrees with a client about a securities regulation, the argument goes, the feds will be notified, and investors will panic. That's unlikely. A lawyer is obligated to resign only after making, at minimum, a five-step determination that a (1) continuing (2) material violation is (3) probable, and that (4) the general counsel and (5) the board are ignoring it.

This thorough process will winnow out most conflicts between law firms and their clients and help ensure that aggressive managers don't go overboard. On the few occasions when officers disagree with outside attorneys—say, about the legitimacy of a tax shelter—they can be expected to have a solid legal rationale for their actions. And in that case, they should have nothing to fear from the SEC.

France used to work in a large corporate law firm.

Risk Management.

Just one of the reasons we have so many 4- and 5-star funds.

At T. Rowe Price, we do everything possible to make our investors feel more confident. With one of the largest in-house research departments in the industry, we actively manage our funds, constantly looking for long-term opportunities while avoiding any unnecessary risks that might surface.

The results of intelligently balancing risk and reward speak volumes. Morningstar gives its best ratings to the top 33% of all funds (10% get five stars, and 22.5% get four stars). By comparison, 68% (46 out of 68) of our rated funds received an overall star rating of four or five stars, far ahead of the industry average.

Results will vary for other periods, and all funds are subject to market risk. While past performance cannot guarantee future results, investing with T. Rowe Price is one way to feel more confident about your assets. Open an account online, or call us today.

T. ROWE PRICE.COM/MUTUALFUNDS

1-800-341-1206

46 of our 68 rated funds received an Overall Morningstar Rating™ of four or five stars as of 11/30/02. These include:*

Capital Appreciation ★★★★★
Growth Stock† ★★★★★
Equity Income† ★★★★★
Mid-Cap Value ★★★★★
Spectrum Income ★★★★★
GNMA ★★★★★

These funds were rated among the following categories for the overall rating and the 3-, 5-, and (if applicable) 10-year periods: Capital Appreciation Fund, 717, 717, 530, and 136 domestic hybrid funds; Growth Stock Fund, 779, 779, 517, and 164 large growth funds; Equity Income Fund, 621, 621, 470, and 157 large value funds; Mid-Cap Value Fund, 181, 181, and 125 mid-cap value funds; Spectrum Income Fund, 159, 159, 114, and 34 multisector bond funds; GNMA Fund, 262, 262, 230, and 104 intermediate government funds. †-18.63%, 0.61%, and 9.79% are the Growth Stock Fund's and -14.16%, 1.57%, and 10.30% are the Equity Income Fund's average annual total returns for the 1-, 5-, and 10-year periods ended 9/30/02, respectively.

T. Rowe Price 
 INVEST WITH CONFIDENCE

For more information, including fees, expenses, and risks, request a fund profile or prospectus; read it carefully before investing. For updated performance information, please visit our Web site or contact a T. Rowe Price representative. *For funds with at least a 3-year history, a Morningstar Rating™ is based on a risk-adjusted return measure (including the effects of sales charges, loads, and redemption fees), with emphasis on downward variations and consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% 4 stars, the next 35% 3 stars, the next 22.5% 2 stars, and the bottom 10% 1 star. Each share class is counted as a fraction of one fund within this scale and rated separately. The Overall Morningstar Rating™ is derived from a weighted average of the performance figures associated with a fund's 3-, 5-, and 10-year (if applicable) Morningstar Rating™ metrics. Morningstar Rating™ is for the retail share class only; other classes may have different performance characteristics. Capital Appreciation, Equity Income, and Growth Stock received 5 stars for the 3-, 5-, and 10-year periods. Mid-Cap Value received 5 and 4 stars for the 3- and 5-year periods, respectively. Spectrum Income and GNMA received 4 stars for the 3-, 5-, and 10-year periods. Average annual total returns include changes in principal value, reinvested dividends, and capital gain distributions. Investment return and principal value will vary and shares may be worth more or less at redemption than at original purchase. T. Rowe Price Investment Services, Inc., Distributor.

STAR066021



THE BEST MUTUAL FUND

The managers
thriving in this
treacherous
market know
when to sit
tight and when
to pounce

If there's one thing investors want in a mutual-fund manager, it's the ability to make money. Unfortunately, that talent has been hard to find lately. The returns that hot-growth managers produced in the late 1990s are long gone. And even conservative managers who have weathered the three-year bear market better than most are limited to bragging about losing less money than the market averages.

It makes you wonder whether any manager can still turn a profit. Thankfully, the answer is yes. Here in the 18th edition of *BusinessWeek's* Equity Fund Scoreboard is where you'll find the best that the industry has to offer. This tenacious bunch has done well in both the best

and worst of times. From a database of 3,458 stock funds, we've identified the select few with five-year records that earned the best returns for the least risk. The list is short: only 172 funds earn our overall A rating. Others get a top grade as the best in their category.

Although they may not be the leading performers in any given year, the A-rated funds have the best returns relative to the risk they took over the long haul and make good choices for buy-and-hold investors. We adjust the pretax returns of all funds for the amount of risk their managers took to achieve their results. For each of the past 60 months, we check whether a fund beat the risk-free return on Treasury bills. Each time it fails, it earns negative marks. The bigger the

sum of negative numbers, the higher the fund's risk of losses.

Results for the 605 largest funds start on page 62. Ranging from the \$61 billion Fidelity Magellan Fund to the \$511 million Mercury International Fund, they represent almost 90% of the assets of all the funds in our database, which is available in its entirety online at http://bwnt.businessweek.com/mutual_fund. The online returns—and *BusinessWeek's* ratings—are interactive and updated monthly.

The Scoreboard, prepared for *BusinessWeek* by Standard & Poor's, contains a wealth of detail about each fund. For instance, we highlight cash holdings, which gauge how much faith managers have in the U.S. stock market or their particular sector. Lots of cash means the manager is finding few buying opportunities. For instance, Zack Shafran, manager of the \$1.7 billion A-rated Waddell & Reed Advisors Science & Tech Fund, has been so cautious at times that he has parked north of 40% of his fund in cash, earning him high marks: The fund is up 12% annually since the start of 1998, while peers have lost an average of 1.7%.

The Scoreboard will also alert you to manager arrivals and departures. These are crucial because future performance may fall off after long-standing star managers leave. For example, if you're thinking about adding to

your stake in the highest-performing A-rated fund, the Schroder Capital Ultra Fund, it's important to know that manager Ira Unschild, who has managed it since its late-1997 inception, left in December to start his own investment firm. Unschild's average annual 72% gain over the past five years was achieved with a hedge-fund-like strategy of betting that stocks would fall by shorting them. It's a style not easily replicated by other managers, who usually prefer to hold long positions.

It also helps to know which funds make big, concentrated bets on individual stocks. For the A-rated Kinetics Internet Fund, that strategy was a calculated risk that paid off. By contrast, the White Oak Growth Fund earned a D rating for putting too much money in too few stocks that were poor per-

Special Report

formers. You can find that information in the Scoreboard, which gives the percentage of assets accounted for by a fund's top 10 stocks.

Top-rated managers are a cautious lot—they don't speculate wildly on the market or chase after hot performers. "I don't want to take so much risk that I'm No.1, because that means I'm also taking the risk to be the last in the group," says Jerome Heppelmann of the A-rated PBHG Mid Cap Value Fund, up 11.2% annually over five years. Many of the best have a value slant—they like to buy cheap. But Manu Dafary, who runs the A-rated Quaker Aggressive Growth Fund, says that he cares more about profit growth than valuation. He's recently picked up General Electric and Citicorp. "For blue-chip, franchise businesses," he says, "they got as cheap as they've been in a long time."

Some of the best managers find better investing opportunities abroad. Like rivals with a domestic focus, many never bought into the tech-stock fad and have used the same contrarian approach in foreign markets. "Our performance hasn't come from buying ZippidyDoDa.com," says David Winters, who manages the \$950 million, A-rated Mutual European Fund, one of Franklin Resources Mutual Series funds, with \$21 billion in assets. "We're traditionalists." The fund in-



THE A-TEAM

These equity funds each earned an A for delivering t

FUND	AVERAGE ANNUAL TOTAL RETURN (%)**	CATEGORY	RISK
ADVISORS INNER CIRCLE FMC SELECT**	8.0	All Cap	Very Low
AIM EUROPEAN GROWTH A	9.0	Europe	Average
AIM GLOBAL HEALTH CARE A	9.0	Health	Low
AIM SMALL CAP GROWTH A	7.9	Small-cap Growth	High
AMERICAN CENTURY EQUITY INC. INV.	7.8	All Cap	Very Low
AMERICAN CENTURY GLBL. GOLD INV.**	8.4	Precious Metals	Very High
AMERISTOCK	6.8	Large-cap Value	Low
ARIEL	7.6	Small-cap Value	Low
ARIEL APPRECIATION	7.3	Mid-cap Value	Low
ARK SMALL CAP EQUITY A**	13.3	Small-cap Growth	High
ARMADA SMALL CAP VALUE I	7.1	Small-cap Value	Low
ARTISAN INTERNATIONAL	7.9	Foreign	Average
ARTISAN MID CAP	14.7	Mid-cap Growth	Average
ARTISAN SMALL CAP VALUE	7.6	Small-cap Value	Very Low
BARON GROWTH	6.4	Small-cap Growth	Average
BARON SMALL CAP	6.5	Small-cap Growth	Average
BERGER SMALL CAP VALUE INV.	8.3	Small-cap Value	Low
BJURMAN MICRO CAP GROWTH**	19.7	Small-cap Growth	High
BLACKROCK INTL. OPPORTUN. INV. A**	15.0	Foreign	Average
BNY HAMILTON SM. CAP GROWTH INV.**	7.5	Small-cap Growth	High
BRAZOS MICRO CAP Y**	12.5	Small-cap Growth	High
BRIDGEWAY AGGRESSIVE INVESTORS 1**	16.7	All Cap	High
BRIDGEWAY ULTRA SMALL CO.**	12.3	Small-cap Blend	Average
BRIDGEWAY ULTRA SMALL CO. TAX ADV.**	11.1	Small-cap Blend	Low
BRUCE**	6.9	Domestic Hybrid	Low
CALAMOS GROWTH A	17.3	Mid-cap Growth	Average
CALIF. INVEST. S&P MID CAP INDEX**	6.9	Mid-cap Blend	Average
CGM FOCUS**	16.0	Small-cap Value	High
CLIPPER	10.8	Large-cap Value	Very Low
CONSECO EQUITY Y**	9.1	Mid-cap Growth	Average
DODGE & COX BALANCED	8.0	Domestic Hybrid	Very Low
DODGE & COX STOCK	7.6	Large-cap Value	Low
DRIEHAUS ASIA PACIFIC GROWTH**	11.6	Divers. Pacific/Asia	Average
EATON VANCE WLDWD. HLTH. SCI. A	11.6	Health	Average
FBR SMALL CAP FINANCIAL A**	9.7	Financial	Very Low
FBR SMALL CAP VALUE A**	7.5	Small-cap Value	Low
FENIMORE EQUITY INCOME**	6.7	Mid-cap Value	Very Low
FIDELITY ADVISOR MID CAP T	7.9	Mid-cap Growth	Average
FIDELITY EXPORT & MULTINATIONAL	7.6	Large-cap Blend	Average
FIDELITY FIFTY	7.2	Large-cap Blend	Average
FIDELITY JAPAN SMALL COMPANY**	12.2	Japan	High
FIDELITY LOW PRICED STOCK	8.3	Small-cap Value	Low
FIDELITY NEW MILLENNIUM	10.4	Small-cap Growth	High

FUND	AVERAGE ANNUAL TOTAL RETURN (%)**	CATEGORY	RIS
FIDELITY SELECT GOLD**	10.7	Precious Metals	Hi
FIDELITY SELECT INSURANCE**	9.2	Financial	Lo
FIDELITY SELECT SOFTWARE & COMPUTER	9.9	Technology	Ve
FIFTH THIRD STRATEGIC INCOME ADV.**	6.6	Domestic Hybrid	Ve
FIRST AMERICAN MICROCAP Y**	15.1	Small-cap Growth	Hi
FIRST EAGLE FUND OF AMERICA Y**	6.4	Mid-cap Blend	Lo
FIRST EAGLE SOGEN GLOBAL A	8.8	International Hybrid	Ve
FIRST EAGLE SOGEN GOLD**	15.5	Precious Metals	Hi
FIRST EAGLE SOGEN OVERSEAS A	11.3	Foreign	Ve
FMI FOCUS	15.5	Small-cap Growth	Av
FRANKLIN BIOTECHNOLOGY DISCOVERY A	8.0	Health	Ve
FRANKLIN GOLD & PRECIOUS METALS A**	10.2	Precious Metals	Hi
FRANKLIN MICROCAP VALUE**	8.1	Small-cap Value	Ve
FREMONT U.S. MICRO CAP**	8.3	Small-cap Growth	Ve
FREMONT U.S. MICRO CAP INSTL.**	12.2	Small-cap Growth	Hi
GABELLI ABC**	7.0	Domestic Hybrid	Ve
GABELLI GOLD**	16.1	Precious Metals	Hi
HARTFORD MID CAP A	13.3	Mid-cap Growth	Av
HENNESSY CORNERSTONE GROWTH**	9.9	Small-cap Growth	Av
HERITAGE MID CAP STOCK A**	10.0	Mid-cap Blend	Lo
HOTCHKIS & WILEY MID-CAP VALUE I**	9.6	Mid-cap Value	Lo
ICON ENERGY**	9.0	Natural Resources	Hi
ICON HEALTHCARE**	8.5	Health	Lo
ICON INFORMATION TECHNOLOGY**	10.5	Technology	Hi
ICON LEISURE AND CONSUMER**	7.8	Miscellaneous	Lo
IMS CAPITAL VALUE**	8.1	Mid-cap Blend	Av
ING INTERNATIONAL SMALL CAP GRWTH. A**	8.5	Foreign	Av
ING PRECIOUS METALS**	10.5	Precious Metals	Hi
INVESCO LEISURE INV.	11.7	Miscellaneous	Av
JANUS ADVISER BALANCED I	7.9	Domestic Hybrid	Ve
JANUS ADVISER CAPITAL APPRECIATION I	7.6	Large-cap Growth	Av
JANUS ASPEN CAP. APPRECIATION INSTL.	7.4	Large-cap Growth	Hi
JANUS ASPEN CORE EQUITY INSTL.**	6.5	Large-cap Blend	Av
JANUS BALANCED	7.1	Domestic Hybrid	Ve
JENSEN	7.8	Large-cap Growth	Lo
JULIUS BAER INTERNATIONAL EQUITY A	10.0	Foreign	Lo
KINETICS INTERNET**	25.8	Technology	Ve
LEGG MASON SPECIAL INVESTMENT TRUST	6.5	Small-cap Blend	Av
LIBERTY ACORN Z	7.4	Small-cap Value	Lo
LONGLEAF PARTNERS	7.3	Large-cap Value	Lo
LORD ABBETT MID CAP VALUE A	9.2	Mid-cap Value	Lo
MAIRS & POWER GROWTH	7.8	All Cap	Lo
MARSHALL MID CAP VALUE INV.**	7.2	Mid-cap Value	Lo

*1998-2002, pre-tax return, appreciation plus reinvestment of dividends and capital gains

**Fund data on BusinessWeek Online

Data: Standard &

buy when
ly wants
ing to do
he country ??

CHIANG
Lynch Global Small Cap

We don't get
aught up in the
ype or affected
y the doom
nd gloom ??

ELLODY HOBSON
Fidelity Mutual Funds



stead focuses on conservatively financed companies, such as ACF, a Spanish commercial construction company. "If you are like I am, somebody who doesn't do what the crowd does, there are times when you don't look terribly swift," says Winters, whose fund was out of favor during the bull market, though it has a five-year annualized return of 9%.

Holding a diverse group of stocks has helped most of the A-rated managers smooth out the bumps. It's a tried-and-true strategy, whatever the market conditions. "I probably sleep too well," admits Fidelity Investment's Joel Tillinghast, manager of the A-rated Low-Priced Stock Fund, which has a five-year annualized 8.3% return. "That's

one of the benefits of being widely diversified." Tillinghast has held many of his current stocks for a long while, including business back-office outsourcer Affiliated Computer Services and Renal Care Group, a dialysis outfit. Both companies control large shares of their markets and have steady recurring revenues and profits. Tillinghast, who launched the fund on the eve of the 1990 bear market, says

Special Report

THE BEST MUTUAL FUNDS

for the risk over the past five years

	AVERAGE ANNUAL TOTAL RETURN (%)*	CATEGORY	RISK	FUND	AVERAGE ANNUAL TOTAL RETURN (%)*	CATEGORY	RISK
25**	7.5	Large-cap Value	Low	ROYCE MICRO-CAP INV.**	6.5	Small-cap Value	Average
S ASIAN GROWTH & INCOME**	14.3	Pacif./Asia ex-Japan	Very Low	ROYCE OPPORTUNITY INV.	10.1	Small-cap Value	Average
S KOREA**	28.9	Pacific/Asia ex-Japan	Very High	ROYCE PENNSYLVANIA MUTUAL INV.**	7.0	Small-cap Value	Low
S PACIFIC TIGER**	6.6	Pacific/Asia ex-Japan	High	ROYCE PREMIER	7.1	Small-cap Value	Low
	6.9	Domestic Hybrid	Very Low	ROYCE TOTAL RETURN	7.5	Small-cap Value	Very Low
GROWTH**	7.2	Mid-cap Blend	Low	ROYCE TRUST & GIFTSNARES INV.**	13.1	Small-cap Value	Average
VALUE	16.9	Mid-cap Blend	Low	SCNRODER CAPITAL ULTRA INV.**	72.4	Small-cap Blend	Very Low
LYNCN GLOBAL SMALLCAP B**	11.6	World	Average	SCUDDER GOLD & PRECIOUS METALS S**	9.9	Precious Metals	High
LYNCN NEALTNCARE B**	7.5	Health	Low	SCUOER MICRO CAP INVEST.**	9.1	Small-cap Growth	High
LYNCN MASTER SM. CAP VALUE B	6.8	Small-cap Value	Average	SECURITY MID CAP VALUE A**	11.2	Mid-cap Value	Low
INTERNATIONAL NEW DISCOVERY A	12.0	Foreign	Low	SENTINEL SMALL COMPANY A**	9.1	Small-cap Blend	Low
Y OCM GOLO**	12.7	Precious Metals	High	SEQUOIA	7.8	Large-cap Value	Low
VERY GLOBAL LONG SHORT R**	12.1	Intl. Hybrid	Average	SMITH BARNEY AGGRESSIVE GROWTH A	11.1	Large-cap Growth	High
GAN MID CAP VALUE I**	15.6	Mid-cap Value	Very Low	STRONG ADVISOR SMALL CAP VALUE Z	13.7	Small-cap Value	Average
TANLEY HEALTH SCI. TRUST B**	8.2	Health	Average	TCW GALILEO VALUE OPPORTUNITIES I**	11.0	Mid-cap Value	Average
STANLEY INSTL. SM. CO. GR. B**	9.5	Small-cap Growth	High	THOMPSON PLUMB BALANCED**	7.1	Domestic Hybrid	Very Low
EQUITY TRUST MID CAP**	6.8	Mid-cap Value	Low	THOMPSON PLUMB GROWTH	8.5	Large-cap Blend	Average
EUROPEAN Z**	9.1	Europe	Very Low	TOCQUEVILLE SMALL CAP VALUE**	7.0	Small-cap Value	Average
FINANCIAL SERVICES A**	10.3	Financial	Low	TOUCHSTONE EMERGING GROWTH A**	9.1	Small-cap Growth	Average
R PERF. MID CAP GROWTH**	8.2	Mid-cap Growth	High	TRANSAMERICA PREMIER BALANCEO INV.**	7.0	Domestic Hybrid	Low
GROWTH**	13.2	Mid-cap Growth	High	TRANSAMERICA PREMIER GRWTH. OPPT. INV.**	10.5	Small-cap Growth	Very High
ER BERMAN GENESIS INV.	6.9	Small-cap Blend	Low	TURNER SMALL CAP VALUE**	8.1	Small-cap Value	Average
AC INVESTORS EMG. GROWTH**	6.7	Small-cap Growth	High	UNDISCOVERED MANAGERS REIT INSTL.**	6.3	Real Estate	Very Low
BLACK PSE TECH 100 IOX A**	8.7	Technology	Very High	UNOISCOVEREO MGRS. SM. CAP VL. INSTL**	7.1	Small-cap Value	Low
EQUITY & INCOME I	10.9	Domestic Hybrid	Very Low	USAA PRECIOUS METALS & MINERALS**	15.1	Precious Metals	High
INTERNATIONAL SM. CAP I**	10.4	Foreign	Average	VALUE LINE EMERGING OPPORTUNITIES**	10.9	Small-cap Growth	Average
FINANCIAL ALERT C	10.6	All Cap	Average	VALUE LINE SPECIAL SITUATIONS**	6.5	Small-cap Growth	Average
MER GOLD & SPEC. MINERALS A**	10.5	Precious Metals	High	VANGUARO CAPITAL OPPORTUNITY	14.9	Mid-cap Growth	Average
IS**	11.2	Mid-cap Blend	Low	VANGUARO HEALTH CARE	14.8	Health	Very Low
US INCOME EQUITY INCOME**	9.0	Large-cap Value	Low	VANGUARO INTERNATIONAL EXPLORER**	9.1	Foreign	Average
IGE CAP VALUE**	6.7	Large-cap Value	Low	VANGUARO PRECIOUS METALS**	12.6	Precious Metals	High
O CAP VALUE**	11.2	Mid-cap Value	Low	VANGUARO WELLESLEY INCOME INV.	6.8	Domestic Hybrid	Very Low
A RENAISSANCE A	8.3	Mid-cap Value	Average	WADOELL & REED ADV. ASSET STRATEGY A**	8.3	Domestic Hybrid	Very Low
OM BIOTECHNOLOGY D**	15.4	Health	Very High	WADDELL & REED ADV. SCI. & TECH. A	12.0	Health	High
OM GLOBAL HEALTHCARE D**	12.1	Health	Average	WASATCH CORE GROWTH	10.6	Small-cap Blend	Average
PRICE CAPITAL APPRECIATION	8.9	Domestic Hybrid	Very Low	WASATCH MICRO CAP**	22.9	Small-cap Growth	Low
PRICE HEALTH SCIENCES	6.4	Health	Average	WASATCH SMALL CAP GROWTH	11.7	Small-cap Growth	High
PRICE INTL. DISCOVERY**	7.6	Foreign	Average	WASATCH SMALL CAP VALUE**	14.9	Small-cap Value	Average
PRICE MID-CAP VALUE	6.4	Mid-cap Value	Low	WASATCH ULTRA GROWTH**	12.2	Small-cap Growth	High
TAL NATURAL RESOURCES A**	10.7	Natural Resources	High	WEITZ PARTNERS VALUE	9.4	All Cap	Low
AGGRESSIVE GROWTH A**	18.1	All Cap	Very Low	WEITZ VALUE	9.2	All Cap	Low
PRIV. EQTY. SM. CAP GRWTH. R**	7.6	Small-cap Growth	Very High	WILLIAM BLAIR INTL. GROWTH N	8.0	Foreign	Average
OW PRICED STOCK	11.5	Small-cap Value	Average	WM WEST COAST EQUITY A**	9.0	All Cap	High

MICHAEL L. ABRAMSON

BEST IN THEIR CATEGORIES

Rated against their peers, these funds each earned an A for best returns for the risk over five years. Not all categories have ratings, since some lack enough funds with a long enough history for a ratings review.

FUND AVERAGE ANNUAL TOTAL RETURN (%)**

ALL CAP

QUAKER AGGRESSIVE GRDWT A**	18.1
BRIDGEWAY AGGRESSIVE INVESTORS 1**	16.7
OLSTEIN FINANCIAL ALERT C	10.6

DIVERSIFIED EMERGING MARKETS

MDNTGDMERY EMG. MKTS. FOCUS R**	5.9
DRIENHAUS EMG. MARKETS GROWTH**	5.5
OPPEHMEIER DEVELOPING MARKETS A**	5.3

DIVERSIFIED PACIFIC/ASIA

DRIENHAUS ASIA PACIFIC GROWTH**	11.6
---------------------------------	------

DOMESTIC HYBRID

DAKMARK EQUITY & INCOME I	10.9
T. RDWE PRICE CAPITAL APPRECIATION	8.9
WADDELL & REED ADV. ASSET STRATEGY A**	8.3
DDGGE & CDX BALANCED	8.0
JANUS ADVISER BALANCED I	7.9
SCUDDER TARGET 201D**	7.2
JANUS BALANCED	7.1
THOMPSON PLUMB BALANCED	7.1
GABELLI ABC**	7.0
TRANSAMERICA PREMIER BALANCED INV.**	7.0
BRUCE**	6.9
MERGER	6.9
VANGUARD WELLESLEY INCDME INV.	6.8
VAN KAMPEH EQUITY AND INCDME A	6.7
FIFTH THIRD STRATEGIC INCDME ADV.**	6.6
EXETER DEFENSIVE A**	6.3
IDEX JANUS BALANCED B**	5.7
WELLS FARGO STRATEGIC INCDME I**	5.7
PERMAHENT**	5.6
VALUE LINE INCDME & GRDWT	5.6
VANGUARD LIFESTRATEGY INCDME	5.6
FIDELITY BALANCED	5.2

EUROPE

MUTUAL EUROPEAN Z**	9.1
AIM EUROPEAN GRDWT A**	9.0

FINANCIAL

FBR SMALL CAP FINANCIAL A**	9.7
-----------------------------	-----

FOREIGN

BLACKROCK INTL. OPPORTUNITIES INV. A**	15.0
MFS INTL. NEW DISCOVERY A**	12.0
FIRST EAGLE SDGEH DYVERSEAS A	11.3
DAKMARK INTL. SMALL CAP I**	10.4
JULIUS BAER INTL. EQUITY A	10.0
VANGUARD INTL. EXPLORER**	9.1
ING INTL. SM. CAP GRWTH. A**	8.5
WILLIAM BLAIR INTL. GRWTH. N**	8.0
ARTISAN INTL.	7.9
T. RDWE PRICE INTL. DISCOVERY**	7.6
PUTHAM INTL. VDYAGER A	6.2
MORGAN STANLEY INSTL. INTL. EQUITY A	5.6
MASTERS SELECT INTL.**	5.5
AMERICAN CENTURY INTL. DISC. INV.	5.4
MORGAN STANLEY INSTL. INTL. SM. CAP A**	5.1

HEALTH

PIMCO RCM BIOTECHNOLOGY D**	15.4
-----------------------------	------

INTERNATIONAL HYBRID

MDNTGOMERY GLOBAL LONG SHORT R**	12.1
----------------------------------	------

JAPAN

FIDELITY JAPAN SMALL COMPANY**	12.2
--------------------------------	------

FUND AVERAGE ANNUAL TOTAL RETURN (%)**

LARGE-CAP BLEND

THOMPSON PLUMB GRDWT	8.5
FIDELITY EXPRT & MULTINATIONAL	7.6
FIDELITY FIFTY	7.2
JANUS ASPEN CORE EQUITY INSTL.**	6.5
JANUS ADVISER CORE EQUITY I**	6.1
BEAR STEARNS ALPHA GROWTH A**	6.1
CALVERT SOCIAL INV. EQUITY A**	5.5
JANUS CORE EQUITY	5.3
LEGG MASDH VALUE TRUST	5.1
MARSICO FOCUS	4.9
AMANA GRDWT**	4.9
FEDERATED CAPITAL APPRECIATION A	4.8
CHASE GROWTH**	4.7
GATEWAY FUND	4.4
MARSICO GRDWT	4.2
EXETER TAX MANAGED A**	4.1
ABH AMRD CHICAGO CAPITAL GROWTH H	3.6
RYDEX URSA**	3.5
BRIDGEWAY ULTRA LARGE 35 INDEX**	2.8

LARGE-CAP GROWTH

SMITH BARNEY AGGRESSIVE GRDWT A	11.1
JENSEN	7.8
JANUS ADVISER CAPITAL APPRECIATION I	7.6
JANUS ASPEN CAP. APPRECIATION INSTL.	7.4
GRDWT FUND OF AMERICA A	7.1
CHESAPEAKE CORE GROWTH**	5.8
NATIONS MARSICO FOCUSED EQ. INV. A	5.3
FIDELITY INDEPENDENCE	4.5
SEXTANT GRDWT**	4.4
JANUS GROWTH & INCDME	4.0
FIDELITY CONTRAFUND	3.9
JANUS MERCURY	3.7
JANUS DLYMPUS	3.7
NAVILLIER PERF. LARGE CAP GRDWT**	3.6
MANAGERS CAPITAL APPRECIATION**	3.4
RESERVE INFORMED INV. GROWTH R**	3.4
PBHG LARGE CAP 2D**	3.3
SMITH BARNEY LARGE CAP GRDWT B	3.1

LARGE-CAP VALUE

CLIPPER	10.8
PARHASSUS INCDME EQUITY INCOME**	9.0
SEQUOIA	7.8
DDGGE & CDX STDC	7.6
MATTHEW 25**	7.5
LDNGLEAF PARTNERS	7.3
AMERISTDC	6.8
PBHG LARGE CAP VALUE**	6.7
VDHDBEL U.S. VALUE**	6.1
AMCAP A	5.6
MATRIX ADVISORS VALUE**	5.6
AIM BASIC VALUE A	5.5
GMD U.S. SECTOR III**	5.5
WESMARK GRDWT**	5.3
FIDELITY DIVIDEND GROWTH	4.9
GABELLI EQUITY INCOME**	4.6
PIMCO PEA VALUE C**	4.4
EXCELSIOR VALUE & RESTRUCTURING	4.1

MID-CAP BLEND

MERIDIAN VALUE	16.9
----------------	------

FUND AVERAGE ANNUAL TOTAL RETURN (%)**

MID-CAP GROWTH

CALAMDS GROWTH A	17.
VANGUARD CAPITAL OPPORTUNITY	14.
ARTISAN MID CAP	14.
HARTFORD MID CAP A	13.
HEEDHAM GRDWT**	13.
CDHSEC EQUITY Y**	9.
NAVILLIER PERF. MID CAP GRDWT**	8.

MID-CAP VALUE

J. P. MORGAN MID CAP VALUE I**	15.
PBHG MID CAP VALUE**	11.
SECURITY MID CAP VALUE A**	11.
TCW GALELIE VALUE OPPORTUNITIES I**	11.

MISCELLANEOUS

INVESED LEISURE INV.	11.
----------------------	-----

NATURAL RESOURCES

PRUDENTIAL NATURAL RESOURCES A**	10.
----------------------------------	-----

PACIFIC/ASIA EX-JAPAN

MATTHEWS KOREA**	28.9
MATTHEWS ASIAN GROWTH & INCDME**	14.

PRECIOUS METALS

GABELLI GOLD**	16.
----------------	-----

REAL ESTATE

UNDISCOVERED MANAGERS REIT INSTL.**	6.3
STRATTON MONTHLY DIVIDEND REIT**	5.4

SMALL-CAP BLEND

SCHRODDER CAPITAL ULTRA INV.**	72.4
BRIDGEWAY ULTRA SMALL COMPANY**	12.3

SMALL-CAP GROWTH

WASATCH MICRO CAP**	22.9
BJURMAN MICRO CAP GRDWT**	19.7
FMI FOCUS	15.5
FIRST AMERICAN MICROCAP Y**	15.1
ARK SMALL CAP EQUITY A**	13.3
BRAZOS MICRO CAP Y**	12.5
FREEMONT U.S. MICRO CAP INSTL.**	12.2
WASATCH ULTRA GRDWT**	12.2
WASATCH SMALL CAP GRDWT	11.7
VALUE LINE EMERGING OPPORTUNITIES**	10.9
TRANSAMERICA PREMIER GRWTH. OPT INV.**	10.5
HENNESSY CORNERSTONE GRDWT**	9.9

SMALL-CAP VALUE

CGM FOCUS**	16.0
WASATCH SMALL CAP VALUE**	14.9
STRONG ADVISOR SMALL CAP VALUE Z	13.7
ROYCE TRUST & GIFTSHARES INV.**	13.1
ROYCE LOW-PRICED STDC	11.5
ROYCE OPPORTUNITY INV.	10.1
BERGER SMALL CAP VALUE INV.	8.3
TURNER SMALL CAP VALUE**	8.1

TECHNOLOGY

KINETICS INTERNET**	25.8
ICDH INFORMATION TECHNOLOGY**	10.5

UTILITIES

EATON VANCE UTILITIES A**	5.6
MORGAN STANLEY GLOBAL UTILITIES B	1.8

WORLD

MERRILL LYNCH GLOBAL SMALL CAP B	11.6
TWEEDY BROWNE GLOBAL VALUE	5.5
MUTUAL DISCOVERY Z	5.2
ATLAS ASSETS GLOBAL GROWTH A	5.0
GMO WORLD EQUITY ALLOCATION III	5.0

*1998-2002, appreciation plus reinvestment of dividends and capital gains before taxes

**Fund data on BusinessWeek Online

Data: Standard & Poor's

t's important in iffy
es. Tillinghast is also
fraid of holding cash,
ometimes as much as 20%
he fund's \$15.5 billion
assets.

sector funds that make
A-list are also domi-
ed by managers who
and hold, such as
vid Ellison of the FBR
all Cap Financial Ser-
es Fund. Small regional
ks, including Quaker
y Bancorp, Washington
leral, and FirstFed Fi-
cial, have been among
top holdings for years.
don't tend to move
gs around too much,
ause there hasn't been
ot of change in their
inesses," he says.

But what earns our A-
ed managers the high-
praise is their ability
perform well in both
r and bull markets.
ey do that by both hav-
a tempered approach

on growth stocks are all the rage, and a willingness to
e on additional risk when their peers are running scared in
ear market. "We've been able to navigate the volatility
being extraordinarily disciplined," says Melody Hobson,
sident of Ariel Mutual Funds. "We don't get caught up in
hype or affected by the doom and gloom." Stan Majcher of
A-rated \$146 million Hotchkis & Wiley Mid Cap Value
nd is gobbling up such tarnished stocks as Computer As-
iates, Aetna, Sears, and Centex Homes. "Other people may
be comfortable with these stocks, but we are," he says. "We
ak a lot of the worries have been priced in."

All the same, they're more at ease now that the tech bubble
burst. Since many of the best managers exercise strict dis-
pline and sell stocks when they
their price targets, they now
be less and hang on longer to
gems they find. "I like these
rkets better," says Merrill
ch Global SmallCap lead man-
er Kenneth Chiang, who took
er the fund in 1998. "It's a lot
re comfortable for me where
have the luxury of time."
ile much of Chiang's 11.6% an-
alized return has come from
S. companies, he tends to spice
returns by buying some
cks in out-of-favor emerging
rkets. He's got 12% of the
d's assets in such stocks now,
uding Brazil's AmBev brewery
d Indonesia's Gudam Garam, a

THE BIG FUNDS

Here's how *BusinessWeek* rates
the heavyweights—the largest equity
funds by assets in our database

FUND	ASSETS BILLIONS	OVERALL RATING	AVERAGE ANNUAL TOTAL RETURN (%)*	INVESTMENT CATEGORY	CATEGORY RATING
FIDELITY MAGELLAN	\$60.87	C	0.3	Large-cap Blend	B
VANGUARD 500 INDEX	59.67	C	-0.6	Large-cap Blend	B
INVESTMENT COMPANY OF AMERICA A	48.01	B	4.0	Large-cap Value	B+
WASHINGTON MUTUAL INVESTORS A	44.16	B	2.6	Large-cap Value	B
S&P'S DEPOSITARY RECEIPT	43.78	C	-0.8	Large-cap Blend	C
GROWTH FUND OF AMERICA A	33.48	B+	7.1	Large-cap Growth	A
FIDELITY CONTRAFUND	27.96	B+	3.9	Large-cap Growth	A
FIDELITY GROWTH & INCOME	27.20	B	0.6	Large-cap Blend	B+
EUROPACIFIC GROWTH A	23.44	B	2.5	Foreign	B+
NEW PERSPECTIVE A	23.36	B+	5.1	World	B+
INCOME FUND OF AMERICA A	20.85	B	4.1	Domestic Hybrid	B
VANGUARD WELLINGTON INV.	20.01	B+	4.6	Domestic Hybrid	B+
AMERICAN CENTURY ULTRA INV.	19.21	C	0.0	Large-cap Growth	B
FIDELITY EQUITY INCOME	18.50	C	0.6	Large-cap Value	B
VANGUARD WINDSOR II INV.	18.49	C	0.6	Large-cap Value	B
FIDELITY PURITAN	18.47	B+	3.3	Domestic Hybrid	B
FIDELITY BLUE CHIP GROWTH	17.73	C	-1.4	Large-cap Growth	B
JANUS	17.00	C	-1.4	Large-cap Growth	B
FIDELITY GROWTH COMPANY	16.41	B	1.2	Large-cap Growth	B+
FUNDAMENTAL INVESTORS A	15.9	B	2.5	Large-cap Value	B+

*1998-2002, appreciation plus reinvestment of dividends and capital gains before taxes

Data: Standard & Poor's

clove-cigarette maker.
"We buy when nobody
wants anything to do
with the country," he
says. "Anyone can buy
Coke or Unilever."

Going against the
grain is inbred in these
managers, and that
helps in a bear market.
But so does being
opportunistic, which
gained them rewards in
the bull market. Soon
after Jonathan K. Si-
mon, manager of the
A-rated J.P. Morgan
Mid-Cap Value Fund,
launched the fund in
1997, he was trading in
and out of stocks more
than he would have
done ordinarily. Now,
he's back to buying and
holding the likes of Out-
back Steakhouse, Golden
West Financial, and
Kinder Morgan for their
heavy insider ownership
and excess cash flow.

"These are companies whose founders are still around," he says.
"Their mind-set is they don't care about stock price in the short
term. They want to make sure the value grows over time."

It's that kind of patience that makes for good investments.

And good fund
managers. Now
it's your turn to
take some time
and do your own
research on the best mutual funds in the industry, with the
help of this *BusinessWeek* Scoreboard issue. Stay tuned next
week for the best bond funds.

Special Report

THE BEST MUTUAL FUNDS

By Mara Der Hovanesian in New York

THE FUND CATEGORIES

Precious-metals funds
shine, while value funds lose
less in a tough market

	AVERAGE ANNUAL TOTAL RETURN (%)*					AVERAGE ANNUAL TOTAL RETURN (%)*			
	2002	2000-2002	1998-2002	1993-2002		2002	2000-2002	1998-2002	1993-2002
PRECIOUS METALS	65.5	17.5	8.6	4.1	WORLD	-19.4	-13.8	-0.4	6.8
REAL ESTATE	4.2	12.8	3.0	8.8	LARGE-CAP VALUE	-19.4	-5.9	0.0	8.9
NATURAL RESOURCES	-3.9	4.7	3.0	9.9	LATIN AMERICA	-20.9	-12.7	-7.6	1.0
DIVERSIFIED EMG. MKTS.	-5.9	-12.9	-4.3	0.5	LARGE-CAP BLEND	-21.3	-12.8	-0.9	8.0
INTERNATIONAL HYBRID	-7.4	-5.5	2.7	7.8	ALL CAP	-22.1	-8.7	2.1	8.6
PACIFIC/ASIA EX-JAPAN	-9.1	-13.6	0.6	-0.9	UTILITIES	-23.2	-11.6	-1.7	5.3
FINANCIAL	-9.7	5.8	3.8	13.3	MID-CAP GROWTH	-26.7	-17.5	0.0	7.2
DOMESTIC HYBRID	-10.2	-3.5	2.0	7.3	LARGE-CAP GROWTH	-27.0	-19.9	-2.3	6.7
DIVERSIFIED PACIFIC/ASIA	-10.6	-21.2	-1.8	0.2	SMALL-CAP GROWTH	-28.4	-15.0	0.0	6.3
SMALL-CAP VALUE	-12.2	5.9	3.4	9.9	HEALTH	-29.3	-1.2	6.0	11.5
JAPAN	-13.2	-26.0	-1.7	-0.5	COMMUNICATIONS	-39.6	-31.2	-4.3	7.0
MID-CAP VALUE	-13.3	3.5	3.4	10.2	TECHNOLOGY	-43.4	-36.7	-1.7	9.8
MISCELLANEOUS	-14.5	-4.0	2.0	9.5	U.S. DIVERSIFIED EQUITY	-22.2	-9.8	0.3	8.0
EUROPE	-15.6	-13.9	-1.7	7.1	ALL EQUITY	-19.2	-9.2	0.4	7.6
FOREIGN	-15.8	-16.7	-1.5	5.3	INTERNATIONAL EQUITY	-14.6	-15.2	-1.4	5.2
MID-CAP BLEND	-16.4	-3.1	3.5	9.3	S&P 500	-22.1	-14.5	-0.6	9.3
SMALL-CAP BLEND	-16.8	1.9	8.1	9.6					

*Appreciation plus reinvestment of dividends and capital gains before taxes

Data: Standard & Poor's

BusinessWeek online

Go to our Web site at
<http://bwnnt.businessweek.com/>
mutual_fund for Scoreboard rat-
s for an additional 2,900 funds

EQUITY FUNDS

MUTUAL FUND SCOREBOARD

How to Use the Tables

BUSINESS WEEK RATINGS

Overall ratings are based on five-year, risk-adjusted returns. They are calculated by subtracting a fund's risk-of-loss factor (see RISK) from historical pretax total return. Category ratings are based on risk-adjusted returns of the funds in that category. The ratings:

A	SUPERIOR
B+	VERY GOOD
B	ABOVE AVERAGE

C	AVERAGE
C-	BELOW AVERAGE
D	POOR
F	VERY POOR

MANAGEMENT CHANGES

⤵ indicates the fund's manager has held the job at least 10 years; ⤴ indicates a change since Dec. 31, 2001.

S&P 500 COMPARISON

The pretax total returns for the Standard & Poor's 500-stock index are as follows: 2002, -22.1%; three-year average

(2000-2002), -14.5%; five-year average (1998-2002), -0.6%; 10-year average (1993-2002), 9.3%.

CATEGORY

Each U.S. diversified fund is classified by market capitalization of the stocks in the portfolio and by the nature of those stocks. If the average market cap is greater than \$10 billion, the fund is large-cap; from \$2 billion to \$10 billion, mid-cap; less than \$2 billion, small-cap. All-cap funds are those that don't follow a fixed-

capitalization policy. "Value" funds are those whose stocks have price-to-earnings ratios lower than average of the stocks in their capitalizations. "Growth" funds have higher than average p-b ratios. "Blend" funds are those in which the ratios are about average. Hybrids include U.S. stocks, foreign stocks, and bonds, and possibly other assets. World funds generally include U.S. stocks; foreign stocks do not. Sector and regional funds are as indicated.

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	RATING	SIZE		FEES		2002 RETURN	
				ASSETS \$MIL.	% CHG. 2001-2002	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX
ABN AMRO CHICAGO CAPITAL GROWTH N	B+	Large-cap Growth	A	652.6	24	No load	1.10†	-19.4	-19.4
ABN AMRO MONTAG & CALDWELL GROWTH I	C	Large-cap Growth	B+	1423.5	20	No load	0.77	-22.7	-22.7
AIM AGGRESSIVE GROWTH A ⤵	C-	Small-cap Growth	C-	1874.3	-29	5.50**	1.17†	-22.6	-22.6
AIM BALANCED A ⤵	C-	Domestic Hybrid	D	1581.4	-32	4.75**	1.01†	-17.5	-18.1
AIM BASIC VALUE A	B+	Large-cap Value	A	2682.2	44	5.50**	1.30†	-23.1	-23.1
AIM BLUE CHIP A	D	Large-cap Growth	C-	1435.0	-35	5.50**	1.28†	-26.4	-26.4
AIM CHARTER A ⤵	C-	Large-cap Growth	C	2162.0	-37	5.50**	1.16†	-16.1	-16.1
AIM CONSTELLATION A	C-	All Cap	C-	6947.1	-34	5.50**	1.14†	-24.8	-24.8
AIM GLOBAL HEALTH CARE A	A	Health	B	533.8	-15	4.75**	1.75†	-22.7	-22.7
AIM INTERNATIONAL GROWTH A (a) ⤵	C-	Foreign	C	1121.9	-20	5.50**	1.57†	-14.2	-14.2
AIM MID CAP CORE EQUITY A (b)	B+	Mid-cap Blend	B	1047.0	135	5.50**	1.39†	-11.1	-11.1
AIM PREMIER EQUITY A (c) ⤵	C-	Large-cap Growth	C	5065.6	-41	5.50**	1.08†	-30.9	-30.9
AIM SMALL CAP GROWTH A	A	Small-cap Growth	B+	821.0	36	5.50**	1.31†	-28.0	-28.0
AIM SUMMIT I	D	Large-cap Growth	C-	1536.4	-20	No load	0.90	-30.1	-30.1
AIM WEINGARTEN A ⤵	F	Large-cap Growth	F	2194.9	-47	5.50**	1.21†	-31.5	-31.5
ALLIANCE GROWTH & INCOME A	B	Large-cap Value	B	2778.4	-12	4.25**	1.09†	-26.6	-26.6
ALLIANCE GROWTH B	D	Large-cap Growth	D	1144.9	-53	No load*	2.00†	-29.2	-29.2
ALLIANCE PREMIER GROWTH B ⤵	D	Large-cap Growth	C-	3086.4	-47	No load*	2.25†	-32.9	-32.9
ALLIANCE TECHNOLOGY B	C-	Technology	C	1541.5	-50	No load*	2.31†	-43.4	-43.4
AMCAP A ⤵	B+	Large-cap Value	A	7076.8	-5	5.75**	0.71†	-18.7	-18.7
AMER. AADVANTAGE INTL. EQUITY INSTL. ⤵	C	Foreign	B	571.9	2	No load	0.78	-14.1	-14.1
AMERICAN BALANCED A ⤵	B+	Domestic Hybrid	B+	12510.9	47	5.75**	0.68†	-6.3	-7.1
AMER. CENTURY BALANCED INV.	B	Domestic Hybrid	C	559.7	-18	No load	0.90	-9.5	-10.1
AMER. CENTURY EQUITY GRTH INV. ⤵	C	Large-cap Blend	C	1064.4	-28	No load	0.68	-20.3	-20.3
AMER. CENTURY EQUITY INC. INV.	A	All Cap	B+	1208.1	58	No load	1.00	-5.0	-5.0
AMER. CENTURY GIFTTRUST INV.	D	Mid-cap Growth	D	789.4	-14	No load	1.00	-21.4	-21.4
AMER. CENTURY GROWTH INV.	C	Large-cap Growth	B	4115.9	-35	No load	1.00	-26.1	-26.1
AMER. CENTURY HERITAGE INV.	B	Mid-cap Growth	B+	1044.6	-16	No load	1.00	-16.0	-16.0
AMER. CENTURY INC. & GROWTH INV. ⤵	C	Large-cap Blend	B	3344.9	-24	No load	0.68	-19.4	-19.4
AMER. CENTURY INTL. DISCOVERY INV.	B+	Foreign	A	841.9	-18	No load*	1.45	-12.8	-12.8
AMER. CENTURY INTL. GROWTH INV.	C	Foreign	B	2417.1	-27	No load	1.21	-19.2	-19.2
AMER. CENTURY SELECT INV.	C	Large-cap Growth	B	3657.3	-27	No load	1.00	-22.8	-22.8
AMER. CENTURY SMALL CAP VALUE INV.	B+	Small-cap Value	B	821.4	-18	No load	1.25	-11.4	-12.0
AMER. CENTURY STRATEGIC ALLC. MOD. INV.	B+	Domestic Hybrid	B	556.8	-1	No load	1.10	-9.5	-10.0
AMER. CENTURY ULTRA INV.	C	Large-cap Growth	B	19209.8	-27	No load	0.99	-23.1	-23.1
AMER. CENTURY VALUE INV.	B+	Mid-cap Value	C	1767.1	-2	No load	1.00	-12.7	-13.0
AMER. CENTURY VISTA INV.	B	Mid-cap Growth	B	982.8	-21	No load	1.00	-20.9	-20.9
AMERICAN MUTUAL A ⤵	B	Large-cap Value	B+	8235.3	-7	5.75**	0.59†	-12.2	-13.0
AMERISTOCK	A	Large-cap Value	A	1399.9	24	No load	0.77	-16.0	-16.0
ARIEL ⤵	A	Small-cap Value	B+	1190.8	121	No load	1.19†	-5.2	-5.2
ARIEL APPRECIATION ⤵	A	Mid-cap Value	B+	1512.9	114	No load	1.26†	-10.4	-10.4
ARMADA EQUITY GROWTH I	C	Large-cap Growth	C	568.0	-32	No load	0.92†	-28.2	-28.2
ARMADA SMALL CAP VALUE I	A	Small-cap Value	B+	711.5	12	No load	1.16†	-10.6	-11.0
ARTISAN INTERNATIONAL	A	Foreign	A	7221.9	37	No load	1.21	-18.9	-19.0
ARTISAN MID CAP	A	Mid-cap Growth	A	2462.4	42	No load	1.22	-24.2	-24.2

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. NA=Not available.
(a) Formerly AIM International Equity Fund/A. (b) Formerly AIM Mid Cap Equity Fund/A. (c) Formerly AIM Value Fund/A.

LARGE
of buying a fund. Many
e this "load" out of the
estment, and for ratings
returns are reduced by
arges. Loads may be
withdrawals.

RATIO
ts expenses as a per-
average net assets for
most recent fiscal year.
es how much sharehold-
r management. Foot-
cate the inclusion of a
lan, which spends
er money on marketing.
ge is 1.44%.

TOTAL RETURN
et gain to investors, in-
vestment of dividends
al gains at month-end

TOTAL RETURN
urn adjusted for federal

taxes. Assumes ordinary income
is taxed at the 31% tax rate. Cap-
ital gains are assumed long-term
and taxed at 20%.

YIELD
Income distributions as a percent
of net asset value, adjusted for
capital-gains distributions.

HISTORY
A fund's returns relative to all
other equity funds for five one-
year periods, which, from left to
right, are 1998, 1999, 2000,
2001, and 2002. The numbers
designate which quintile the fund
was in during the period: **1** for
the top quintile, **2** for the sec-
ond, and so on. No number indi-
cates that there is no data for
that period.

TURNOVER
Trading activity, the lesser of pur-
chases or sales divided by aver-
age monthly assets.

CASH
Portion of fund assets not invest-
ed in stocks or bonds. A negative
number means the fund has bor-
rowed to buy securities.

UNTAXED GAINS
Percentage of assets in portfolio
that are unrealized and undistrib-
uted capital gains. A negative fig-
ure indicates losses that may off-
set future gains.

P-E RATIO
The average price-earnings ratio
of the fund derived from each
stock price divided by reported
per-share earnings.

TOP 10 STOCKS
The percentage of fund assets
that represents the 10 largest
holdings. The higher the number,
the more concentrated the fund,
and the more dependent on the
performance of a relatively small
number of stocks.

LARGEST HOLDING
Comes from the latest available
fund reports.

RISK
Potential for losing money in a
fund, or risk-of-loss factor. For
each fund, the three-month Treas-
ury bill return is subtracted from
the monthly total return for each
of the 60 months in the ratings
period. When a fund has not per-
formed as well as Treasury bills,
the monthly result is negative.
The sum of these negative num-
bers is divided by the number of
months. The result is a negative
number, and the greater its mag-
nitude, the higher the risk of loss.
This number is the basis for
BusinessWeek ratings, category
ratings, and the RISK column.

BEST AND WORST QUARTERS
Highest and lowest quarterly re-
turns of the past five years.

ANNUAL TOTAL RETURNS (%)					HISTORY	PORTFOLIO DATA						RISK					TELEPHONE
FUND	5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	UNTAXED GAINS %	P/E RATIO	TOP 10 STKS. %	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST		
	PRETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	% RET	QTR	% RET	
2	3.6	2.6	NA	NA	132333	Very Low	6	0	23	39	Cardinal Health (4)	Average	IV 98	23.7	III 01	-17.7	800-992-8151
4	0.3	-0.6	NA	NA	133334	Low	3	12	27	45	Qualcomm (5)	Average	IV 98	27.1	I 01	-15.5	800-992-8151
3	-2.1	-3.4	9.7	8.6	422554	Average	3	1	27	22	Express Scripts (3)	High	IV 99	31.4	III 01	-24.7	800-347-4246
2	-1.3	-2.1	7.5	6.4	333333	Average	-3	NA	22	23	Cooper Cameron (1)	Low	IV 99	16.2	III 01	-12.2	800-347-4246
3	5.5	5.4	NA	NA	421124	Low	5	8	18	29	Tyco (4)	Low	II 99	21.1	III 02	-20.8	800-347-4246
3	-3.4	-3.4	7.1	6.1	134554	Low	3	NA	23	28	General Electric (4)	Average	IV 98	24.5	I 01	-20.1	800-347-4246
4	-1.4	-2.1	7.1	5.5	224552	Average	10	NA	22	21	General Mills (3)	Average	IV 98	26.1	III 01	-21.7	800-347-4246
3	-2.4	-3.7	6.5	5.3	224554	Average	2	NA	26	20	Microsoft (3)	High	IV 99	36.6	III 01	-23.3	800-347-4246
3	9	7.6	11.2	8.9	251114	High	4	19	22	55	Tenet Healthcare (7)	Low	IV 98	21.6	III 98	-11.3	800-347-4246
3	-2.7	-3.2	6	5.5	315442	Average	4	100	NA	29	Teva Pharmaceutical (4)	Average	IV 99	43.1	III 02	-19.2	800-347-4246
1	6.8	5.5	10.9	8.8	521122	Average	18	4	23	18	Brunswick (2)	Average	IV 99	28.4	III 98	-25.0	800-347-4246
3	-2.5	-3.4	8.4	6.8	124335	Low	5	3	21	33	Pfizer (4)	Average	IV 98	27.3	II 02	-18.6	800-347-4246
2	7.9	7.4	NA	NA	213444	Low	10	3	24	9	Accredo Health (1)	High	IV 99	38.1	III 01	-24.4	800-347-4246
3	-4.4	-5.9	5.4	3.4	124555	Average	4	13	18	18	Lockheed Martin (2)	High	IV 99	37.1	I 01	-30.3	800-347-4246
3	-8.4	-9.5	2.8	0.6	125555	Very High	1	5	27	26	Pharmacia (4)	High	IV 98	28.0	I 01	-27.7	800-347-4246
3	1.9	0.6	9.8	7.5	241124	Average	1	11	15	33	Bank America (4)	Average	IV 98	23.3	III 02	-19.7	800-221-5672
1	-7.4	-8.9	5.5	3.8	135555	High	7	22	39	39	Kohls (5)	High	IV 98	28.6	I 01	-23.8	800-221-5672
3	-5.2	-5.9	6.4	5.2	135555	High	2	20	54	54	MBNA (7)	High	IV 98	30.8	III 01	-20.0	800-221-5672
2	5.6	3.7	10.8	8	132223	Low	31	2	20	18	Viacom (3)	Low	IV 98	22.0	III 01	-15.4	800-421-0180
5	-3	-3.6	NA	NA	115555	Low	7	10	32	47	Microsoft (5)	Very High	IV 99	44.3	III 01	-35.4	800-221-5672
3	-0.3	-1.5	8.2	6.8	333442	Low	2	98	18	17	ENI (2)	Low	IV 98	15.2	III 02	-22.4	800-967-9009
4	6.2	4.2	10.1	7.8	351111	Average	7	6	18	14	Verizon (2)	Very Low	IV 00	8.8	III 02	-11.5	800-421-0180
3	1.7	-0.2	6.4	4.3	343211	High	3	15	17	17	Bank America (2)	Very Low	IV 98	9.4	III 02	-8.8	800-345-2021
3	-1.3	-2	9.3	7.5	234333	High	5	15	27	27	Bank America (4)	Average	IV 98	23.1	III 02	-16.8	800-345-2021
8	7.8	5.8	NA	NA	351111	Average	6	18	31	31	S&P 500 (6)	Very Low	IV 98	14.2	III 02	-10.7	800-345-2021
2	-7.1	-8.1	4.1	2.6	514553	Average	2	25	28	28	Nasdaq 100 Futures Dec 02 (5)	Very High	IV 99	56.3	IV 00	-35.1	800-345-2021
7	-1.2	-2.9	5.6	3	124444	High	7	23	27	27	Microsoft (5)	High	IV 99	23.6	I 01	-19.3	800-345-2021
1	2.1	0.8	8.1	6.1	521552	Average	3	4	24	25	Lockheed Martin (4)	Average	IV 99	40.4	III 98	-21.2	800-345-2021
2	-0.1	-0.6	9.7	8.2	134333	Average	5	15	25	25	Bank America (4)	Average	IV 98	22.2	III 02	-17.1	800-345-2021
7	5.4	4.7	NA	NA	214442	High	96	NA	18	18	Tandberg Asa (4)	Average	IV 99	50.9	III 98	-19.9	800-345-2021
4	-0.3	-1.3	7.4	5.9	214553	High	100	NA	20	20	Royal Dutch (2)	Average	IV 99	48.2	III 02	-19.7	800-345-2021
1	-0.9	-2.2	6.6	4.2	134444	High	7	21	29	29	S&P 500 (4)	Average	IV 98	22.3	III 02	-15.4	800-345-2021
3	NA	NA	NA	NA	51112	Average	3	16	17	17	Sybron Dental Specialties (2)	Very Low	IV 01	17.9	III 02	-19.0	800-345-2021
9	3.7	2.3	NA	NA	333211	High	6	17	17	11	Fannie Mae 6.5% 30 Yr. (1)	Very Low	IV 99	17.4	III 02	-9.6	800-345-2021
0	0	-1	8.5	6.9	125444	Average	2	9	20	28	Pfizer (4)	Average	IV 99	32.1	I 01	-17.5	800-345-2021
6	3.9	2.4	NA	NA	451112	High	6	6	18	33	S&P 500 (6)	Low	II 99	18.5	III 02	-16.3	800-345-2021
9	1.3	-0.2	5.4	3.6	113553	High	5	NA	20	34	Lockheed Martin (5)	High	IV 99	72.2	III 98	-27.5	800-345-2021
8	3.2	0.9	10	7.3	352112	Average	13	2	19	22	Fannie Mae Preassign (4)	Very Low	IV 98	12.4	III 02	-15.7	800-421-0180
2	6.8	6.2	NA	NA	151112	Very Low	6	4	17	41	Merck (5)	Low	IV 98	19.1	III 02	-18.5	800-394-5064
2	7.6	5.6	11.6	9.3	451111	Low	10	NA	23	40	Energizer (4)	Low	IV 98	20.1	III 98	-15.6	800-292-7435
3	7.3	5.9	11.6	9.8	251111	Low	3	7	19	36	Rouse (4)	Low	IV 98	23.4	III 02	-16.0	800-292-7435
4	-2	-2.4	6.6	5.2	133445	Average	1	5	21	25	Pfizer (4)	Average	IV 98	22.9	I 01	-16.1	800-622-3863
4	7.1	5.7	NA	NA	541111	High	10	3	18	21	Equitable Res. (1)	Low	IV 01	19.3	III 02	-17.8	800-622-3863
1	7.9	7	NA	NA	114443	Average	95	14	33	33	Nestle (4)	Average	IV 99	49.1	III 02	-21.4	800-344-1770
2	14.7	13.8	NA	NA	111124	Average	10	22	24	24	Pactiv (4)	Average	IV 99	37.7	III 01	-22.5	800-344-1770

Date: Standard & Poor's



we see a rocket scientist.

With the right tools we believe child-like dreams can become real life accomplishments. It's possibilities like this that inspire us to create software that helps kids of all ages and circumstances develop their creativity and achieve success in school, work and life. microsoft.com/potential

Your potential. Our passion.



Microsoft

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE		FEES		2002 RETU	
				ASSETS \$MIL.	% CHG. 2001-2002	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER TAX
ARTISAN SMALL CAP VALUE	A	Small-cap Value	B+	556.0	15	No load	1.20	-4.4	-5.1
AXP BLUE CHIP ADVANTAGE A	C-	Large-cap Blend	D	957.3	-40	5.75	0.89 †	-21.6	-22.1
AXP DIVERSIFIED EQUITY INCOME A	C	Large-cap Value	C-	1380.1	-15	5.75	1.02 †	-18.4	-18.8
AXP EQUITY SELECT A	B	Mid-cap Growth	B	1154.9	-7	5.75 **	1.16 †	-13.8	-13.9
AXP EQUITY VALUE A	C-	Large-cap Value	D	846.9	-25	5.75	1.03 †	-26.0	-26.1
AXP GROWTH A	D	Large-cap Growth	D	2175.0	-34	5.75	0.99 †	-24.1	-24.2
AXP MANAGED ALLOCATION A	C	Domestic Hybrid	D	914.5	-26	5.75	1.01 †	-12.6	-13.1
AXP MUTUAL A	D	Domestic Hybrid	F	1178.8	-30	5.75	0.93 †	-15.3	-16.0
AXP NEW DIMENSIONS A	C	Large-cap Growth	B	9597.4	-25	5.75	1.06 †	-21.5	-21.6
AXP SMALL COMPANY INDEX A	C	Small-cap Value	C-	631.9	-3	5.75	0.96 †	-15.4	-15.4
AXP STOCK A	C-	Large-cap Blend	D	1673.6	-29	5.75 **	0.92 †	-22.2	-22.3
AXP STRATEGY AGGRESSIVE A	F	Mid-cap Growth	D	611.1	-40	5.75 **	1.09 †	-32.2	-32.2
AXP UTILITIES A (d)	C-	Utilities	C	805.4	-43	5.75	1.06 †	-21.5	-22.1
BARCLAYS GLOBAL INV. S&P 500 STOCK	C	Large-cap Blend	C	1036.6	-27	No load	0.20	-22.2	-22.6
BARON ASSET	C-	Small-cap Growth	C	2055.2	-24	No load	1.37 †	-20.0	-20.5
BARON GROWTH	A	Small-cap Growth	B+	1030.3	102	No load	1.36 †	-12.3	-12.3
BARON SMALL CAP	A	Small-cap Growth	B+	719.1	23	No load	1.35 †	-9.7	-10.1
BEAR STEARNS S&P STARS A	C	Large-cap Blend	C	625.0	-48	5.50 **	1.50 †	-40.6	-40.6
BERGER MID CAP VALUE		Mid-cap Value		963.2	357	No load	1.17 †	-13.1	-13.7
BERGER SMALL CAP VALUE INV.	A	Small-cap Value	A	1597.1	-1	No load	1.15 †	-15.6	-16.2
BERNSTEIN INTERNATIONAL VALUE II		Foreign		1491.7	-1	No load	1.29	-8.8	-9.2
BERNSTEIN TAX MGD. INTL. VALUE	B	Foreign	B	2706.5	6	No load	1.25	-8.5	-8.9
BRANDYWINE	C	All Cap	C	3164.5	-26	No load	1.08	-21.7	-21.7
BRAZOS SMALL CAP Y	C	Small-cap Growth	B	730.2	-14	No load	1.05	-31.1	-31.1
BUFFALO SMALL CAP		Small-cap Blend		856.7	60	No load	1.01	-25.7	-25.8
CDC NVEST TARGETED EQUITY A	C-	Large-cap Blend	D	658.4	-32	5.75 **	1.35 †	-28.8	-28.8
CALAMOS GROWTH A	A	Mid-cap Growth	A	1534.7	201	4.75 **	1.50 †	-15.9	-15.9
CAPITAL INCOME BUILDER A	B+	International Hybrid	B+	10589.8	29	5.75 **	0.66 †	0.7	-1.0
CAPITAL WORLD GROWTH & INC. A	B+	World	B+	10016.4	-3	5.75 **	0.78 †	-7.1	-7.8
CLIPPER	A	Large-cap Value	A	5016.9	103	No load	1.08	-5.5	-6.4
COHEN & STEERS REALTY SHARES	B	Real Estate	C	1256.8	-8	No load	1.09	2.8	1.2
COLUMBIA BALANCED Z (e)	B	Domestic Hybrid	C	713.5	-27	No load	0.67	-13.0	-13.7
COLUMBIA GROWTH Z (f)	D	Large-cap Growth	C-	824.2	-39	No load	0.72	-33.5	-33.5
COLUMBIA REAL ESTATE EQUITY Z (g)	B+	Real Estate	C	781.8	34	No load	0.95	3.1	1.8
COLUMBIA SMALL CAP Z (h)	B	Small-cap Growth	B	529.5	-2	No load	1.23	-26.6	-26.6
COLUMBIA SPECIAL Z (i)	B	Mid-cap Growth	B	600.7	-23	No load	1.08	-24.5	-24.5
CONSULTING GRP. LARGE CAP GROWTH	D	Large-cap Growth	C-	1084.6	-35	No load	0.86	-31.6	-31.6
CONSULTING GRP. LARGE CAP VAL. EQ.	C	Large-cap Value	C	1125.5	-26	No load	0.87	-20.5	-20.9
CREDIT SUISSE CAPITAL APPRECIATION CMN. (j)	C	Large-cap Growth	C	567.2	-41	No load	0.99	-32.1	-32.1
DAVIS NEW YORK VENTURE A	B	Large-cap Value	B	8668.7	-15	4.75 **	0.92 †	-17.2	-17.3
DELAWARE DECATUR EQ INC A	C-	Large-cap Value	D	870.2	-23	5.75 **	1.07 †	-19.0	-19.2
DELAWARE TREND A	B	Small-cap Growth	B	734.0	0	5.75 **	1.45 †	-20.2	-20.2
DIVERSIFIED INV. VALUE & INCOME	B	Large-cap Value	B	588.3	12	No load	1.00 †	-15.7	-16.0
DODGE & COX BALANCED	A	Domestic Hybrid	A	7834.1	34	No load	0.53	-2.9	-4.1
DODGE & COX STOCK	A	Large-cap Value	A	13859.0	58	No load	0.54	-10.5	-11.1
DOMINI SOCIAL EQUITY	C	Large-cap Growth	B	1011.0	-16	No load	0.93 †	-20.7	-20.8
DOW INDUSTRIALS DIAMONDS		Large-cap Value		4859.7	68	No load	0.17	-15.1	-15.6
DREYFUS	C-	Large-cap Growth	C	1421.5	-24	No load	0.73	-22.1	-22.3
DREYFUS APPRECIATION	B	Large-cap Growth	B+	3274.6	-5	No load	0.91	-17.1	-17.4
DREYFUS BASIC S&P 500 STOCK INDEX	C	Large-cap Blend	C	1178.1	-16	No load	0.20	-22.3	-22.6
DREYFUS DISCIPLINED STOCK	C	Large-cap Blend	C	1596.9	-36	No load	1.00 †	-22.9	-23.1
DREYFUS FOUNDERS DISCOVERY F	B	Small-cap Growth	B	552.6	-31	No load	1.24 †	-33.1	-33.1
DREYFUS EMERGING LEADERS	B+	Small-cap Growth	B	1072.6	-17	No load *	1.34	-20.2	-20.2
DREYFUS GROWTH & INCOME	C-	Large-cap Value	C-	843.3	-25	No load	0.98	-25.1	-25.2
DREYFUS INDEX MIDCAP INDEX	B+	Mid-cap Blend	B	751.6	27	No load *	0.50	-15	-15.5
DREYFUS INDEX S&P 500 INDEX	C	Large-cap Blend	C	2326.4	-15	No load *	0.50	-22.5	-22.8
DREYFUS MIDCAP VALUE	B+	Mid-cap Value	C	814.9	-33	No load *	1.20	-33.3	-33.3
DREYFUS PREMIER CORE VALUE A	C	Large-cap Value	C	537.7	-21	5.75 **	1.15 †	-24.4	-24.5
DREYFUS PREMIER NEW LEADERS A (k)	B	Mid-cap Blend	C	536.8	-8	No load *	1.16	-11.5	-11.6
DREYFUS PREMIER THIRD CENTURY Z	D	Large-cap Growth	C-	545.8	-36	No load	1.02	-29.4	-29.4
DREYFUS PREMIER WORLDWIDE GROWTH B	C	World	C	517.6	-30	No load *	1.92 †	-17.3	-17.3
EATON VANCE TAX-MGD. GROWTH 1.1 B	B	Large-cap Growth	B+	2377.6	-29	No load *	1.54 †	-20.4	-20.4
EATON VANCE WLDWD. HEALTH SCIENCES A	A	Health	B	788.5	-12	5.75 **	1.69 †	-25.9	-25.9
ECLIPSE INDEXED EQUITY	C	Large-cap Blend	B	559.0	-16	No load	0.30	-22	-22.4
ENTERPRISE GROWTH A	C	Large-cap Growth	B	722.2	-11	4.75 **	1.49 †	-23.3	-23.3
EUROPACIFIC GROWTH A	B	Foreign	B+	23438.9	-13	5.75 **	0.88 †	-13.6	-13.9
EVERGREEN BALANCED A		Domestic Hybrid		739.6	-13	5.75 **	0.97 †	-10.9	-11.4
EVERGREEN EMERGING GROWTH A (l)		Mid-cap Growth		514.7	-23	5.75 **	1.18 †	-26.2	-26.2
EVERGREEN FOUNDATION B	C	Domestic Hybrid	D	650.7	-40	No load *	2.09 †	-12.6	-12.9
EVERGREEN OMEGA B	C	All Cap	C-	571.0	-34	No load *	2.27 †	-27.3	-27.3

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. NA=Not available.

(d) Formerly AXP Utilities Income Fund/A. (e) Formerly Columbia Balanced. (f) Formerly Columbia Growth Fund. (g) Formerly Columbia Real Estate Equity. (h) Formerly Columbia Small Cap. (i) Formerly Columbia Special Fund. (j) Formerly Credit Suisse Warburg Pincus Cap Apprec/Comn. (k) Formerly Dreyfus New Leaders Fund. (l) Formerly Evergreen Small Company Growth/A.

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)				HISTORY		PORTFOLIO DATA						RISK				TELEPHONE	
5 YEARS		10 YEARS		RESULTS VS.		TURNOVER	CASH	UNTAXED	P/E	TOP 10	LARGEST HOLDING	LEVEL	BEST		WORST		
PRETAX	AFTERTAX	PRETAX	AFTERTAX	ALL FUNDS									OTR	% RET	OTR	% RET	
8	7.6	6.6	NA	NA	541111	Low		8	18	26	Centex (3)	Very Low	II 99	21.4	III 98	-20.2	800-344-1770
7	-3.2	-4.2	7.3	5.4	234443	High	5	4	19	24	Microsoft (3)	Average	IV 98	20.2	III 02	-18.0	800-862-7919
1	-0.7	-2	7.6	5.6	343223	Average	4	14	19	25	Lehman Bros. (4)	Low	IV 98	15.4	III 02	-21.1	800-862-7919
3	2.5	0.8	9.5	6.9	223332	Low	3	4	31	32	Whole Foods Mkt. (5)	Average	IV 99	31.4	I 01	-19.4	800-862-7919
6	-3	-4.5	NA	NA	443224	Average	0	17	20	31	Lehman Bros. (4)	Average	IV 98	16.4	III 02	-23.1	800-862-7919
3	-6.3	-6.7	5.6	4.5	225554	High	9	9	19	24	Pfizer (4)	High	IV 98	27.1	III 01	-28.2	800-862-7919
4	-0.7	-2.4	5	2.5	443222	High	18	6	20	18	Microsoft (2)	Low	IV 98	12.0	III 02	-11.5	800-862-7919
7	-5	-6.4	3.7	1.5	444332	Very High	9	5	17	15	Citigroup (3)	Low	IV 98	10.2	III 01	-13.0	800-862-7919
1	0.4	-0.5	9	7.8	124443	Low	2	6	23	30	Wal-Mart (4)	Average	IV 98	24.3	III 01	-15.7	800-862-7919
6	1.4	0.3	NA	NA	542112	Very Low	4	2	18	7	Cephalon(1)	Average	IV 01	20.2	III 98	-21.1	800-862-7919
6	-2.9	-4.3	6.3	4	243344	High	3	6	21	25	3M (4)	Low	IV 98	19.3	III 02	-15.2	800-862-7919
5	-6.8	-8.3	NA	NA	215555	High	6	7	29	21	Microchip Technology (3)	Very High	IV 99	42.8	I 01	-28.8	800-862-7919
9	-1.1	-2.6	6.7	4.6	241133	High	8	4	15	34	Verizon (6)	Low	III 00	17.9	III 02	-17.6	800-862-7919
1	-0.8	-2.4	NA	NA	134333	Low	4	4	19	23	General Electric (3)	Average	IV 98	21.3	III 02	-17.3	800-776-0179
5	-2.6	-3.4	9.9	9.2	443333	Very Low		NA	NA	62	Apollo Group (11)	High	IV 98	26.6	III 98	-23.5	800-992-2766
3	6.4	5.5	NA	NA	423112	Very Low	12	NA	NA	26	Choicepoint (4)	Average	IV 99	23.9	III 98	-22.1	800-992-2766
1	6.5	6.2	NA	NA	415111	Low	7	NA	NA	36	Career Education (9)	Average	IV 99	34.6	III 98	-28.1	800-992-2766
3	0.2	0	NA	NA	122445	High		13	21	34	Pfizer (4)	High	IV 98	28.5	II 02	-22.0	800-766-4111
1	NA	NA	NA	NA	311112	Average	15	7	17	27	Kerr-McGee (2)		IV 98	22.6	III 02	-17.7	800-259-2820
2	8.3	7.1	NA	NA	441112	Low	12	3	17	33	Briggs & Stratton (3)	Low	IV 01	24.6	III 02	-22.6	800-259-2820
9	NA	NA	NA	NA	331	Average	5	98	NA	37	Bank of Nova Scotia (5)		IV 02	10.9	III 02	-22.0	800-221-5672
6	0.7	-0.4	7.2	5.9	333331	Average	5	97	NA	38	Canon (5)	Low	I 98	18.6	III 02	-22.0	800-221-5672
8	0.3	-1.6	9	6.4	511243	High	4	3	21	29	Level 3 Communications (4)	Average	IV 99	32.5	III 98	-18.9	800-656-3017
6	0.5	0.1	NA	NA	322235	Low		3	23	28	Pogo Producing (4)	High	IV 99	29.9	III 98	-19.5	800-426-9157
4	NA	NA	NA	NA	21114	Very Low		18	18	34	Sandisk (5)		IV 01	29.1	III 02	-23.0	800-423-9865
8	-2.6	-4.4	6.4	3.5	143445	Very High	4	NA	12	62	Lennar (8)	Average	IV 98	28.5	III 01	-19.5	800-862-4863
3	17.3	16.5	16.8	14.6	111122	Low	8	0	21	25	Apollo Group (2)	Average	IV 99	48.3	III 98	-18.3	800-323-9943
9	5.2	3.1	10.2	8.1	335111	Low	5	6	17	17	U.S. Treas. Notes 5/16/94 (2)	Very Low	IV 98	8.3	III 02	-8.6	800-421-0180
-5	5.8	4	NA	NA	33221	Average	10	59	16	16	Philip Morris (4)	Low	IV 99	16.4	III 02	-15.2	800-421-0180
11	10.8	8.4	15.2	12.3	255111	Low	0	10	15	52	Tyco (10)	Very Low	III 00	16.2	III 02	-12.3	800-776-5033
3.4	3	1.2	10.7	8.7	551111	Average		NA	NA	33	Boston Properties (5)	Low	II 99	12.4	III 98	-11.9	800-437-9912
7.8	1.9	0.4	7.6	5.6	242222	High	2	5	19	18	U.S. Treas. Bonds 8/15/93 (3)	Very Low	IV 98	12.9	III 02	-9.2	800-345-6611
2.2	-4.6	-5.6	6.1	4	133445	High	1	9	22	33	Microsoft (6)	High	IV 98	25.6	III 01	-22.0	800-345-6611
0.3	3.7	2.2	NA	NA	551111	Average	6	NA	20	46	General Growth Properties (6)	Very Low	II 00	10.9	III 02	-9.9	800-345-6611
3.2	2.1	1.6	NA	NA	411244	Average	5	7	21	25	Caremark Rx (3)	High	IV 99	50.3	III 01	-25.6	800-345-6611
3.8	1.5	0	8.3	5.7	321144	Average	11	6	24	33	HCA (4)	High	IV 99	37.3	I 01	-20.3	800-345-6611
3.4	-5	-6.6	4.8	3.4	125445	High		6	29	45	Pfizer (8)	High	IV 98	26.1	III 01	-22.9	800-221-8806
3.4	-0.9	-2.8	8.7	6.4	352233	High	2	6	21	31	ExxonMobil (4)	Low	IV 98	16.8	III 02	-19.7	800-221-8806
2.1	-1.9	-3.1	8.6	6.2	223355	Average	1	7	26	36	Microsoft (5)	High	IV 99	33.0	III 01	-23.2	800-927-2874
7.6	1.7	1.1	11.4	10.2	332332	Low	3	10	19	42	American Express (7)	Low	IV 98	21.4	III 98	-14.4	800-279-0279
5.6	-2	-3.3	7.9	5.2	452223	High	0	4	17	20	Dominion Resources (2)	Low	IV 98	11.9	III 02	-18.9	800-231-8002
4.6	4.2	2.7	9.8	7.6	313443	Low	1	17	17	33	Everest Reinsurance (8)	High	IV 99	35.0	III 01	-26.4	800-231-8002
4.2	1.6	0.9	NA	NA	342222	Low	7	2	16	21	ExxonMobil (3)	Low	IV 98	13.5	III 02	-19.2	800-926-0044
4.8	8	5.6	12	9.8	441111	Low	4	6	18	18	AT&T (3)	Very Low	II 99	9.9	III 02	-8.9	800-621-3979
2.4	7.6	5.6	14.1	12.1	431111	Very Low	3	9	18	27	AT&T (5)	Low	II 99	16.6	III 02	-15.8	800-621-3979
-17	-0.8	-1.4	8.6	8	134333	Very Low		NA	22	30	Microsoft (6)	Average	IV 98	24.6	III 02	-17.2	800-582-6757
9.1	NA	NA	NA	NA	33222	Very Low	0	NA	22	54	3M (10)		IV 98	17.5	III 02	-17.4	800-843-2639
5.9	-2.7	-3.2	3.5	1.1	234333	Average	8	5	20	29	Microsoft (4)	Average	IV 98	20.3	III 02	-17.8	800-645-6561
9.7	1.6	1.1	9.6	9.1	142332	Very Low	6	3	19	40	Pfizer (6)	Low	IV 98	20.5	III 02	-14.3	800-645-6561
5.1	-0.8	-1.2	NA	NA	134334	Low	2	1	19	24	General Electric (3)	Average	IV 98	21.3	III 02	-17.3	800-645-6561
5.7	-1.9	-2.5	8.5	7.2	234344	Average	1	2	19	25	Microsoft (3)	Average	IV 98	22.6	III 02	-16.0	800-645-6561
0.8	2.3	1.1	7.4	5.5	314445	Average	19	2	21	33	Accredo Health (2)	High	IV 99	41.9	III 01	-27.9	800-525-2440
7.9	3.4	3.2	NA	NA	422333	Low	2	5	20	22	Church & Dwight (3)	Average	IV 98	24.0	III 02	-21.0	800-645-6561
2.9	-2.3	-3.5	5.2	3.3	343224	Low	4	5	18	27	Microsoft (4)	Average	IV 98	18.5	III 02	-18.4	800-645-6561
-2	5.8	3.1	11.4	9	241122	Low	6	2	18	14	M & T Bank (1)	Average	IV 98	27.8	III 02	-16.7	800-645-6561
5.3	-1.1	-1.4	8.7	7.7	134344	Very Low	2	1	19	24	General Electric (3)	Average	IV 98	21.3	III 02	-17.4	800-645-6561
-1.4	4.1	2.7	NA	NA	531115	Very High		14	14	24	Nxtel (4)	High	IV 01	29.5	III 98	-27.7	800-645-6561
-7.8	0.3	-1.1	9.3	6.5	432244	Average	5	4	16	29	ExxonMobil (4)	Average	IV 98	15.0	III 02	-19.0	800-645-6561
-6	2.8	1.3	9.3	7.3	522332	High	12	8	20	26	Int. Flavors & Fragrances (2)	Average	IV 99	24.5	III 98	-20.4	800-645-6561
22.7	-4.5	-5.5	5.4	3.3	124455	Average	1	7	21	33	Royal Dutch (4)	High	IV 98	24.3	III 02	-18.5	800-645-6561
3.3	-0.8	-0.9	NA	NA	143443	Very Low		39	22	34	Pfizer (4)	Low	IV 98	19.9	III 02	-16.8	800-645-6561
10.1	1	1	NA	NA	242333	Low	3	2	26	15	American Intl. Group (2)	Low	IV 98	21.2	III 02	-15.4	800-225-6265
6.5	11.6	11.2	12.6	12.2	231124	Low	5	35	NA	48	Amgen (6)	Average	I 00	36.6	I 01	-19.3	800-225-6265
15.6	-0.6	-1.8	9.1	7.8	134333	Low	6	4	22	24	General Electric (3)	Average	IV 98	21.5	III 02	-17.2	800-695-2126
15.6	-0.4	-1.2	10.1	9	133334	Average	3	12	27	45	Qualcomm (5)	Average	IV 98	26.8	I 01	-15.6	800-432-4320
15.5	2.5	1.4	8.5	7.2	315332	Low	15	86	NA	16	Astrazeneca (2)	Low	IV 99	29.1	III 02	-17.6	800-421-0180
-7.8	NA	NA	NA	NA	43221	Very High	2	3	20	17	U.S. Treas. Bonds 2/15/96 (3)		IV 99	10.5	III 02	-8.7	800-343-2898
20.6	NA	NA	NA	NA	14444	Average	1	6	23	22	XTO Energy (3)		IV 99	47.5	III 98	-29.3	800-343-2898
10.7	-1.6	-2.6	NA	NA	343332	Very High	3	3	19	18	U.S. Treas. Bonds 2/15/96 (4)	Low	IV 99	11.5	I 01	-9.4	800-343-2898
19.8	-1.1	-1.9	NA	NA	224444	High	1	4	24	27	Level 3 Communications (3)	High	IV 99	28.9	IV 00	-25.7	800-343-2898

Data: Standard & Poor's

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 2001-2002	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	2002 RET. PRE- TAX	AF T
EXCELSIOR BLENDED EQUITY A	C	Large-cap Blend	B	541.4	-21	No load	0.97	-20.6	-2
EXCELSIOR VALUE & RESTRUCTURING	B+	Large-cap Value	A	1816.3	-15	No load	0.94	-23.3	-2
FEDERATED AMERICAN LEADERS A	C	Large-cap Value	C-	1278.4	-20	5.50	1.12	-20.5	-2
FEDERATED CAPITAL APPRECIATION A	B+	Large-cap Blend	A	1457.4	87	5.50 **	1.23	-18.8	-1
FEDERATED EQUITY INCOME B	C-	Large-cap Blend	D	680.2	-36	No load *	1.85 †	-19.9	-2
FEDERATED KAUFMANN K	B+	Small-cap Growth	B	2646.4	-18	No load *	1.95 †	-21.4	-2
FEDERATED STOCK TRUST	B	Large-cap Value	B	1257.3	-20	No load	0.99	-19.1	-1
FIDELITY	C	Large-cap Growth	B	9256.4	-24	No load	0.53	-22.3	-2
FIDELITY ADVISOR BALANCED T	C	Domestic Hybrid	C-	1321.4	-22	3.50 **	1.19 †	-9.1	-
FIDELITY ADVISOR DIVIDEND GROWTH T		Large-cap Value		1467.8	17	3.50 **	1.31 †	-20.9	-2
FIDELITY ADVISOR EQUITY GROWTH T	C	Large-cap Growth	C	4821.1	-32	3.50 **	1.26 †	-30.6	-3
FIDELITY ADVISOR EQUITY INCOME T	B	Large-cap Value	B	1915.0	-7	3.50 **	1.19 †	-15.6	-1
FIDELITY ADVISOR GROWTH & INCOME T	C	Large-cap Growth	B	789.7	-26	3.50 **	1.24 †	-19.1	-1
FIDELITY ADVISOR GROWTH OPPORTUNITIES T	F	Large-cap Growth	D	4900.8	-40	3.50 **	0.90 †	-22.4	-2
FIDELITY ADVISOR MID CAP T	A	Mid-cap Growth	B+	1713.9	22	3.50 **	1.28 †	-18.7	-1
FIDELITY ADVISOR OVERSEAS T	D	Foreign	C-	934.8	-25	3.50 **	1.64 †	-20.2	-2
FIDELITY ADVISOR SMALL CAP T		Small-cap Growth		613.0	0	3.50 **	1.57 †	-20.4	-2
FIDELITY ADVISOR VALUE STRATEGIES T	B	Mid-cap Value	C-	711.1	-7	3.50 **	1.34 †	-26.3	-2
FIDELITY AGGRESSIVE GROWTH	F	Large-cap Growth	D	4495.0	-40	No load *	0.92	-41.2	-4
FIDELITY ASSET MANAGER	B+	Domestic Hybrid	B	10496.4	-12	No load	0.73	-8.1	-
FIDELITY ASSET MANAGER GROWTH	B	Domestic Hybrid	C	3534.8	-16	No load	0.81	-14.0	-14
FIDELITY ASSET MANAGER INCOME	B+	Domestic Hybrid	B+	891.7	-5	No load	0.63	-0.5	-1
FIDELITY BALANCED	B+	Domestic Hybrid	A	6713.7	-2	No load	0.66	-8.5	-9
FIDELITY BLUE CHIP GROWTH	C	Large-cap Growth	B	17730.0	-19	No load	0.74	-25.3	-25
FIDELITY CAPITAL APPRECIATION	C	All Cap	C	1958.2	-14	No load	1.03	-21.3	-21
FIDELITY CONTRAFUND	B+	Large-cap Growth	A	27962.6	-12	3.00	0.91	-9.6	-9
FIDELITY CONTRAFUND II		Large-cap Growth		702.8	-35	3.00	0.99	-15.9	-16
FIDELITY DISCIPLINED EQUITY	C	Large-cap Growth	B	2869.7	-3	No load	1.00	-18.6	-18
FIDELITY DIVERSIFIED INTERNATIONAL	B+	Foreign	B+	7106.9	16	No load *	1.19	-9.4	-9
FIDELITY DIVIDEND GROWTH	B+	Large-cap Value	A	14176.3	-2	No load	0.95	-20.4	-20
FIDELITY EQUITY INCOME	C	Large-cap Value	B	18495.4	-15	No load	0.67	-17.2	-17
FIDELITY EQUITY INCOME II	B	Large-cap Value	B	10156.6	-16	No load	0.62	-15.4	-15
FIDELITY EUROPE	C-	Europe	C-	955.2	-16	No load *	1.13	-25.5	-25
FIDELITY EXPORT & MULTINATIONAL	A	Large-cap Blend	A	708.0	12	No load *	0.78	-18.7	-18
FIDELITY FIFTY	A	Large-cap Blend	A	738.0	93	No load *	1.09	0.3	0
FIDELITY GROWTH & INCOME	B	Large-cap Blend	B+	27196.2	-21	No load	0.68	-18.1	-18
FIDELITY GROWTH COMPANY	B	Large-cap Growth	B+	16411.0	-27	No load	0.95	-33.4	-33
FIDELITY INDEPENDENCE	B+	Large-cap Growth	A	4444.4	-19	No load	0.92	-15.8	-16
FIDELITY INTERNATIONAL GROWTH & INC.	B	Foreign	B+	931.5	0	No load *	1.12	-9.9	-10
FIDELITY LARGE CAP STOCK	C	Large-cap Growth	B	599.1	-8	No load	0.87	-23.0	-23
FIDELITY LOW PRICED STOCK	A	Small-cap Value	B+	15539.7	36	3.00 *	0.97	-6.2	-6
FIDELITY MAGELLAN	C	Large-cap Blend	B	60873.3	-23	3.00	0.88	-23.7	-23
FIDELITY MID CAP STOCK	B+	Mid-cap Growth	B+	5439.9	-13	No load *	0.87	-27.6	-27
FIDELITY NEW MILLENNIUM	A	Small-cap Growth	B+	2714.6	-4	3.00	0.98	-19.9	-19
FIDELITY OTC	C	Large-cap Growth	B+	6510.0	-20	No load	1.09	-23.3	-23
FIDELITY OVERSEAS	C-	Foreign	C	3058.9	-15	No load *	1.16	-19.4	-19
FIDELITY PURITAN	B+	Domestic Hybrid	B	18468.4	-9	No load	0.64	-7.9	-8
FIDELITY REAL ESTATE INVESTMENT	B+	Real Estate	B	1697.3	43	No load *	0.79	5.8	4
FIDELITY SELECT BIOTECHNOLOGY	B+	Health	C	1638.7	-51	3.00 *	1.09	-40.5	-40
FIDELITY SELECT COMPUTERS	C	Technology	B	658.7	-43	3.00 *	1.13	-42.0	-42
FIDELITY SELECT ELECTRONICS	B	Technology	B	2861.1	-43	3.00 *	0.97	-50.5	-50
FIDELITY SELECT HEALTH CARE	B+	Health	C	1921.7	-28	3.00 *	0.96	-18.0	-18
FIDELITY SELECT SOFTWARE & COMPUTER	A	Technology	B+	710.4	-23	3.00 *	1.05	-23.4	-23
FIDELITY SELECT TECHNOLOGY	B	Technology	B+	1735.9	-36	3.00 *	1.13	-37.8	-37
FIDELITY SMALL CAP INDEPENDENCE	C	Small-cap Growth	C	886.3	4	No load *	0.91	-20.8	-20
FIDELITY SMALL CAP STOCK		Small-cap Growth		1468.6	18	No load *	1.07	-15.7	-16
FIDELITY SPARTAN 500 INDEX	C	Large-cap Blend	B	7245.2	-14	No load *	0.19	-22.2	-22
FIDELITY SPARTAN TOTAL MARKET INDEX	C	Large-cap Blend	C	1082.8	1	No load *	0.25	-21.0	-21
FIDELITY STOCK SELECTOR	C	Large-cap Growth	C	781.8	-28	No load	0.83	-21.3	-21
FIDELITY TREND	C	Large-cap Growth	C	784.6	-21	No load	0.74	-20.9	-21
FIDELITY UTILITIES	C-	Utilities	C-	827.7	-42	No load	0.89	-26.6	-27
FIDELITY VALUE	B+	Mid-cap Value	C	5287.2	7	No load	0.95	-9.2	-9
FIDELITY WORLDWIDE	C	World	C	689.7	-13	No load *	1.20	-18.8	-18
FIRST AMERICAN EQUITY INC. Y	B	Large-cap Value	B	1139.5	272	No load	0.90	-17.9	-18
FIRST AMERICAN INTERNATIONAL Y	C	Foreign	B	767.5	10	No load	1.35	-18.9	-18
FIRST AMERICAN LARGE CAP CORE Y	C-	Large-cap Growth	C	665.7	93	No load	0.90	-25.1	-25
FIRST AMERICAN MID CAP CORE Y	B	Mid-cap Growth	B	910.1	82	No load	0.95	-15.2	-15
FIRST EAGLE SOGEN GLOBAL A	A	International Hybrid	B+	1921.5	27	5.00	1.40 †	10.2	9
FIRST EAGLE SOGEN OVERSEAS A	A	Foreign	A	840.0	96	5.00	1.50 †	12.5	12
FMI FOCUS	A	Small-cap Growth	A	543.2	72	No load	1.46	-22.2	-22

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. NA=Not available.

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)				HISTORY	PORTFOLIO DATA						RISK	TELEPHONE					
5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	UNTAXED GAINS %	P/E RATIO	TOP 10 STKS. %	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST			
PRETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	% RET	QTR	% RET		
-2	-0.7	-1.3	8.4	7.2	134443	Average	1	7	21	29	Johnson & Johnson (4)	Average	IV 98	22.6	III 01	-15.4	800-446-1012
-2	4.1	3.9	15	14.5	322244	Very Low	-1	7	16	29	Black & Decker (4)	Average	IV 99	28.0	III 98	-20.5	800-446-1012
-2	-0.6	-1.6	8.9	7.2	242223	Low		5	16	20	Bank America (2)	Low	IV 98	16.1	III 02	-19.7	800-341-7400
-1	4.8	4	11.5	10	223223	Average	5	2	19	22	Microsoft (2)	Average	IV 99	27.6	III 02	-17.4	800-341-7400
-2	-3.5	-4.1	NA	NA	344433	High	4	6	20	25	Union Pacific Capital Trust (3)	Average	IV 98	16.0	III 02	-14.9	800-341-7400
-2	3.6	0.7	11.1	9.2	432113	Low	9	10	20	39	Petsmart (9)	Average	IV 99	35.6	III 98	-18.7	800-341-7400
-1	0.9	-0.4	10	7.8	252223	Low		5	15	20	ChevronTexaco (2)	Low	IV 98	16.5	III 02	-19.4	800-341-7400
-2	0	-1.2	9.8	7.7	134334	High		NA	23	28	Microsoft (4)	Average	IV 98	23.8	III 01	-18.3	800-522-7297
-5	0.3	-1.1	5.7	4.2	353211	High	0	4	21	41	S&P 500 Index Futures (5)	Very Low	IV 98	10.3	III 01	-8.2	800-522-7297
-2	NA	NA	NA	NA	42223	High		1	22	40	Cardinal Health (7)	Average	IV 01	11.3	II 02	-15.5	800-522-7297
-3	-1	-2	8	6.7	124445	Average		1	30	29	Microsoft (5)	High	IV 98	24.1	III 01	-22.1	800-522-7297
-1	1.5	0.2	10	8.7	352222	Average	0	0	22	30	S&P 500 Index Futures (5)	Low	IV 98	17.8	III 02	-18.6	800-522-7297
-1	0.9	0.9	NA	NA	134333	Average	1	1	22	53	S&P 500 Index Futures (6)	Average	IV 98	23.4	III 01	-15.7	800-522-7297
-2	-7.1	-8.1	5.8	4.5	255444	Average	0	0	25	35	Microsoft (5)	Average	IV 98	20.5	III 02	-16.8	800-522-7297
-2	7.9	7.1	NA	NA	321133	High		NA	22	23	Citizens Communications (4)	Average	IV 99	28.3	III 01	-21.9	800-522-7297
-3	-3.9	-4.6	4.9	4.1	325443	Average		91	NA	29	Nokia (4)	Average	IV 99	25.0	III 02	-21.3	800-522-7297
-3	NA	NA	NA	NA	15223	Average		NA	20	37	American Italian Pasta (5)		IV 98	36.4	III 01	-22.3	800-522-7297
-2	1.9	0.6	8.1	6.2	432114	Low		2	17	28	Take-Two Interactive Software C (5)	High	IV 01	30.1	III 01	-28.7	800-522-7297
-1	-8	-9.2	4	2	115555	High	2	NA	37	33	Kohl's (NA)	Very High	IV 99	48.3	III 01	-40.3	800-522-7297
-1	3.6	1.4	8.4	6.3	342211	High	1	5	18	33	S&P 500 Index Futures (5)	Very Low	IV 98	14.1	II 02	-8.0	800-522-7297
-0	0.7	-1.3	8	6.1	243222	High	1	6	18	34	Cardinal Health (5)	Low	IV 98	16.1	II 02	-11.8	800-522-7297
-1	4	2.2	7	5.1	352211	High	1	5	17	50	Fannie Mae 6.5% 30-Year (5)	Very Low	IV 98	4.7	II 02	-2.6	800-522-7297
-6	5.2	3.3	8.5	6.4	242111	High		4	19	23	GNMA 7% 30-Year (4)	Very Low	IV 98	12.7	III 02	-10.9	800-522-7297
-8	-1.4	-1.9	9.2	7.7	134444	Low		1	24	31	Microsoft (5)	Average	IV 98	23.4	III 01	-18.4	800-522-7297
-4	0.3	-0.5	9.2	7.2	225223	Average	1	9	24	41	Yahoo! (7)	High	IV 99	29.8	III 01	-21.4	800-522-7297
-5	3.9	2.4	11.5	9.6	133331	High	9	NA	27	28	Lockheed Martin (3)	Low	IV 98	23.7	I 01	-13.2	800-522-7297
-4	NA	NA	NA	NA	24322	Very High	0	7	23	44	Microsoft (10)		IV 99	33.8	III 01	-16.0	800-522-7297
-1	0.1	-1.3	8.9	6.8	233443	Average	0	3	19	25	Microsoft (4)	Low	IV 98	21.0	III 02	-14.4	800-522-7297
-1	4.3	3.6	10.7	9.7	324331	Average	0	91	16	17	Unilever (2)	Low	IV 99	30.4	III 02	-17.2	800-522-7297
-7	4.9	3.7	NA	NA	141123	High		2	20	44	Cardinal Health (7)	Low	IV 98	19.5	II 02	-15.5	800-522-7297
-2	0.6	-0.8	10	8.2	342222	Low	0	6	20	22	ExxonMobil (4)	Low	IV 98	16.2	III 02	-19.1	800-522-7297
-3	1.6	-0.5	9.7	7.5	252222	Very High	0	0	25	33	Schwab (5)	Low	IV 98	20.6	III 02	-16.4	800-522-7297
-8	-4	-5.1	7	5.8	234444	High	0	94	25	33	Nokia (4)	Average	IV 99	21.7	III 02	-28.0	800-522-7297
-6	7.6	5.3	NA	NA	222223	Very High		5	21	26	American Intl. Group (4)	Average	IV 99	28.4	III 02	-16.8	800-522-7297
-8	7.2	5.9	NA	NA	323331	Average	22	NA	16	62	Newmont Mining (10)	Average	IV 98	28.6	III 98	-20.7	800-522-7297
-9	0.6	-0.5	10.3	8.8	143333	Average	0	1	20	38	General Electric (5)	Low	IV 98	20.5	III 02	-14.0	800-522-7297
-3	1.2	0.2	8.9	7.3	113355	Average	0	NA	32	23	Microsoft (NA)	High	IV 99	44.5	I 01	-26.5	800-522-7297
-8	4.5	2.5	9.3	6.4	122522	High	6	NA	20	49	Philip Morris (NA)	High	IV 99	35.7	I 01	-24.9	800-522-7297
-7	1.6	0.6	6.8	5.7	414441	Average	3	86	21	23	Total Fina (2)	Average	IV 99	29.4	III 02	-18.0	800-522-7297
-8	-0.8	-1.6	NA	NA	124444	Average		6	23	28	Microsoft (6)	Average	IV 98	23.5	III 01	-19.0	800-522-7297
-4	8.3	6.6	14.2	11.8	451111	Low		10	15	25	CVS (2)	Low	IV 01	16.5	III 02	-17.0	800-522-7297
-5	0.3	-0.6	9.2	7.4	134334	Low		5	19	32	General Electric (4)	Average	IV 98	27.2	III 02	-16.4	800-522-7297
-6	6.1	4.7	NA	NA	321134	High	3	5	22	17	Mercury Interactive Notes (1)	Average	IV 99	28.5	III 01	-24.7	800-522-7297
-3	10.4	8.4	17	15	113443	Average	3	NA	30	31	QLogic (NA)	High	IV 99	53.7	III 01	-28.3	800-522-7297
-6	0.6	-0.8	7.4	5.4	115554	High		3	24	46	Microsoft (17)	Very High	IV 99	46.2	III 01	-32.0	800-522-7297
-1	-3.3	-4.2	5.1	4.1	325443	Average		88	NA	30	Nokia (4)	Average	IV 99	25.1	III 02	-20.7	800-522-7297
-2	3.3	1.5	9.6	7.1	352221	Average	0	7	19	26	Fidelity Revere (4)	Very Low	IV 98	12.7	III 02	-10.7	800-522-7297
-13	4.2	2.4	10	8.2	551111	Average	0	2	21	51	Equity Office (8)	Low	II 00	12.8	III 98	-11.5	800-522-7297
-2	6.4	5.9	7.4	6.3	111155	Average	3	1	35	79	Gilead Sciences (12)	Very High	IV 99	40.7	I 01	-34.8	800-544-8544
-9	0.8	-1	12.5	9.7	115555	High		1	34	63	Microsoft (15)	Very High	IV 99	41.7	III 01	-37.1	800-544-8544
-7	1.6	0.4	16.4	13.7	115445	Low		5	44	54	Texas Instruments (8)	Very High	IV 98	56.8	III 01	-37.4	800-544-8544
-6	5.5	4.4	13.6	11.5	151143	High		9	23	61	Johnson & Johnson (9)	Low	II 00	20.8	I 01	-18.2	800-544-8544
-1	9.9	7.8	15.9	12.9	115224	High	2	0	28	72	Microsoft (20)	Very High	IV 99	57.1	III 01	-41.1	800-544-8544
-16	3	1.7	11.8	9.1	115555	High		1	37	62	Microsoft (14)	Very High	IV 99	62.1	III 01	-38.3	800-544-8544
-13	-1.2	-1.7	NA	NA	542113	Very High	0	9	18	24	Corrections Corp. America (4)	Average	IV 01	17.0	III 98	-24.5	800-522-7297
-0.4	NA	NA	NA	NA	22112	Average		17	22	28	Owens Illinois (4)		IV 98	21.9	III 98	-26.5	800-522-7297
-15	-0.7	-1.2	9.1	8.3	134333	Low	1	3	20	24	Microsoft (3)	Average	IV 98	21.4	III 02	-17.3	800-522-7297
-4.7	-0.8	-1.2	NA	NA	234333	Low	2	2	21	19	General Electric (3)	Average	IV 98	22.0	III 02	-16.9	800-522-7297
-5.5	-1.9	-3.4	7.9	5.8	333443	Very High		5	21	28	Microsoft (5)	Average	IV 98	19.7	III 98	-15.9	800-522-7297
-4.8	-1.5	-2.5	4.8	2.7	423333	Average	2	NA	NA	27	Microsoft (5)	Average	IV 99	24.9	III 98	-27.0	800-522-7297
-2.3	-4.2	-6.1	5.4	3.2	135444	Average		1	16	60	Verizon (10)	Average	IV 98	18.5	IV 00	-18.3	800-522-7297
-2.9	3.7	2.2	11	8.9	442111	Low		8	18	13	American Standard (2)	Low	II 99	25.6	III 98	-20.1	800-522-7297
-2.2	-0.4	-1.5	7	5.8	423223	High	1	38	21	15	Microsoft (2)	Average	IV 99	20.4	III 98	-21.2	800-522-7297
-6	1.4	-0.7	NA	NA	351123	Average	6	2	17	25	Pfizer (4)	Low	IV 98	11.5	III 02	-16.7	800-677-3863
-9.9	-1.3	-2.4	NA	NA	224453	Average	3	100	19	19	ENI (2)	Average	IV 99	27.6	III 02	-19.1	800-677-3863
-7.5	-3	-4.1	5.4	4.2	143444	Low	8	2	20	26	Microsoft (3)	Average	IV 98	24.0	III 01	-17.5	800-677-3863
-1.4	2	0.5	7.8	6	451122	Average	4	6	19	17	Gallagher (2)	Average	IV 99	24.3	III 01	-19.9	800-677-3863
-6.6	8.8	6.8	10.9	8.9	432111	Low	8	50	19	27	Budens (4)	Very Low	IV 01	10.5	III 98	-10.2	800-451-3623
-5.7	11.3	9.2	NA	NA	422111	Low	11	80	17	32	Financia Alba (3)	Very Low	II 99	15.3	III 98	-13.8	800-451-3623

Data: Standard & Poor's

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 2001-2002	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	2002 RET. PRE-TAX	2001 RET.	TOTAL
FRANKLIN BALANCE SHEET INVEST. A	B+	Small-cap Value	B	2459.8	52	5.75 **	0.96 †	-6.0	-1.8	-4.6
FRANKLIN BIOTECHNOLOGY DISCOVERY A	A	Health	C	527.6	-45	5.75 **	1.29 †	-42.5	-4.9	-1.9
FRANKLIN CAPITAL GROWTH A (m)	C	Large-cap Growth	B	796.8	-17	5.75 **	0.94 †	-25.4	-2.8	-0.8
FRANKLIN GROWTH A	C	Large-cap Value	C-	1409.9	-25	5.75 **	0.91 †	-24.4	-2.8	-0.3
FRANKLIN INCOME A	B	Domestic Hybrid	B	6428.7	4	4.25 **	0.73 †	-1.7	-1.7	1.1
FRANKLIN MGD. TR. RISING DIVIDENDS A	B+	Mid-cap Value	C	585.8	79	5.75 **	1.45 †	-1.8	-1.8	-1.8
FRANKLIN SMALL MID CAP GROWTH A	C	Mid-cap Growth	C	6023.1	-26	5.75 **	0.89 †	-29.6	-2.8	-2.8
FRANKLIN STRATEGIC FLEX. CAP GROWTH A (n)	B	Mid-cap Growth	B	1056.5	-27	5.75 **	1.00 †	-24.9	-2.8	-2.8
FRANKLIN STRATEGIC SMALL CAP GROWTH II A	C	Small-cap Growth	C	-817.6	0	5.75 **	1.21 †	-27.3	-2.8	-2.8
FRANKLIN UTILITIES A	C	Utilities	B	1106.6	-16	4.25 **	0.79 †	-10.5	-1.8	-1.8
FREMONT GLOBAL	C	International Hybrid	C-	529.5	-16	No load	0.93	-13	-1.8	-1.8
FUNDAMENTAL INVESTORS A	B	Large-cap Value	B	15960.9	-16	5.75 **	0.65 †	-17.3	-1.8	-1.8
GABELLI ASSET	B+	All Cap	B	1683.2	-9	No load	1.36 †	-14.3	-1.8	-1.8
GABELLI GROWTH	C-	Large-cap Growth	C	1904.6	-37	No load	1.40 †	-33.8	-3.3	-3.3
GABELLI VALUE A	B+	Mid-cap Value	B	1082.0	-11	5.50	1.40 †	-15.9	-1.8	-1.8
GARTMORE TOTAL RETURN D	C-	Large-cap Blend	C-	1182.9	-26	4.50	0.89	-17.1	-1.8	-1.8
GATEWAY FUND	B+	Large-cap Blend	A	1118.9	-11	No load	0.97 †	-4.9	-1.8	-1.8
GEORGE PUTNAM OF BOSTON A	B	Domestic Hybrid	C	3692.7	.17	5.75 **	0.96 †	-8.4	-1.8	-1.8
GLENMEDE INTERNATIONAL	C	Foreign	B	1027.2	-19	No load	0.11	-11.8	-1.8	-1.8
GMO INTERNATIONAL INTRINSIC VALUE III	B	Foreign	B+	838.7	-26	No load	0.69	-0.6	-1.8	-1.8
GMO U.S. CORE III	B	Large-cap Value	B+	1229.8	-2	No load	0.48	-19.7	-2.0	-2.0
GOLDMAN SACHS CAPITAL GROWTH A	C	Large-cap Growth	B	1468.5	-26	5.50 **	1.43 †	-24.9	-2.4	-2.4
GROWTH FUND OF AMERICA A	B+	Large-cap Growth	A	33481.6	-5	5.75 **	0.75 †	-22.0	-2.2	-2.2
GUARDIAN PARK AVENUE A	D	Large-cap Growth	C-	1214.9	-32	5.50	0.83	-21.6	-2.1	-2.1
JOHN HANCOCK FINANCIAL IND. B	C-	Financial	F	1058.9	-31	No load *	2.03 †	-17.0	-1.7	-1.7
JOHN HANCOCK REGIONAL BANK B	C	Financial	C-	1492.4	-24	No load *	1.98 †	-3.6	-4.0	-4.0
JOHN HANCOCK SMALL CAP GROWTH A	C-	Small-cap Growth	C-	576.4	-19	5.00 **	1.41 †	-31.5	-3.1	-3.1
JOHN HANCOCK SOVEREIGN INVESTORS A	C	Large-cap Value	C	958.0	-21	5.00 **	1.10 †	-18.7	-1.9	-1.9
HARBOR CAPITAL APPRECIATION INSTL. (o)	C	Large-cap Growth	B	5355.1	-21	No load	0.66	-30.7	-3.0	-3.0
HARBOR INTERNATIONAL INSTL. (p)	B	Foreign	B+	3742.2	2	No load	0.91	-6.4	-7.0	-7.0
HARTFORD ADVISERS A	B	Domestic Hybrid	C	1306.9	14	5.50 **	1.22 †	-13.2	-1.3	-1.3
HARTFORD CAPITAL APPRECIATION A	B+	All Cap	B	1850.7	5	5.50 **	1.28 †	-22.9	-2.2	-2.2
HARTFORD DIVIDEND & GROWTH A	C	Large-cap Value	C	883.6	52	5.50 **	1.31 †	-14.2	-1.4	-1.4
HARTFORD MID CAP A	A	Mid-cap Growth	A	793.6	20	5.50 **	1.38 †	-15.0	-1.5	-1.5
HARTFORD STOCK A	C	Large-cap Blend	C	942.2	-16	5.50 **	1.28 †	-24.5	-2.4	-2.4
HEARTLAND VALUE	B+	Small-cap Value	B	967.4	-4	No load	1.29 †	-11.5	-1.2	-1.2
ICAP EQUITY	B	Large-cap Value	B	921.3	-17	No load	0.80	-24.7	-2.4	-2.4
IDEX JANUS GROWTH A	C-	Large-cap Growth	C	530.2	-40	5.50 **	1.49 †	-30.7	-3.0	-3.0
ING INTERNATIONAL VALUE A (q)	B	Foreign	B+	1413.1	8	5.75 **	1.67 †	-18.0	-1.8	-1.8
INVESCO BALANCED INV.	C	Domestic Hybrid	C-	611.7	-36	No load	1.22 †	-17.0	-1.7	-1.7
INVESCO CORE EQUITY INV. (r)	C	Large-cap Value	C	2571.9	-25	No load	1.02 †	-19.8	-2.0	-2.0
INVESCO DYNAMICS INV.	C-	Mid-cap Growth	C	3869.6	-34	No load	1.21 †	-33.1	-3.3	-3.3
INVESCO FINANCIAL SERVICES INV.	B	Financial	C	882.9	-30	No load	1.27 †	-15.6	-1.5	-1.5
INVESCO HEALTH SCIENCES INV.	B	Health	C-	1043.6	-41	No load	1.31 †	-25.2	-2.5	-2.5
INVESCO LEISURE INV.	A	Miscellaneous	A	617.3	-8	No load	1.40 †	-15.4	-1.5	-1.5
INVESCO SMALL COMPANY GROWTH INV.	C	Small-cap Growth	C	832.0	-33	No load	1.45 †	-31.4	-3.1	-3.1
INVESCO TECHNOLOGY INV.	D	Technology	C	1085.8	-46	No load	1.37 †	-47.2	-4.7	-4.7
INVESCO TOTAL RETURN INV.	C	Domestic Hybrid	D	896.1	-29	No load	1.49 †	-12.4	-1.3	-1.3
INCOME FUND OF AMERICA A	B	Domestic Hybrid	B	20835.5	6	5.75 **	0.61 †	-4.4	-5.1	-5.1
INVESTMENT COMPANY OF AMERICA A	B	Large-cap Value	B+	48006.0	-11	5.75 **	0.57 †	-14.5	-1.5	-1.5
ISHARES MSCI EAFE INDEX		Foreign		2104.4	229	No load	0.35	-15.6	-16.1	-16.1
ISHARES MSCI JAPAN INDEX	D	Japan	C-	573.8	13	No load	0.84 †	-10.5	-10.5	-10.5
ISHARES NASDAQ BIOTECHNOLOGY		Health		549.0	147	No load	0.50	-45.4	-45.4	-45.4
ISHARES RUSSELL 1000 GROWTH INDEX		Large-cap Growth		671.5	45	No load	0.20	-28.0	-28.0	-28.0
ISHARES RUSSELL 1000 INDEX		Large-cap Blend		736.6	145	No load	0.15	-21.7	-22.1	-22.1
ISHARES RUSSELL 1000 VALUE INDEX		Large-cap Value		1010.3	79	No load	0.20	-15.7	-16.2	-16.2
ISHARES RUSSELL 2000 GROWTH INDEX		Small-cap Growth		522.8	34	No load	0.25	-30.3	-30.4	-30.4
ISHARES RUSSELL 2000 INDEX		Small-cap Blend		2178.3	9	No load	0.20	-20.5	-20.8	-20.8
ISHARES RUSSELL 2000 VALUE INDEX		Small-cap Value		771.4	45	No load	0.25	-11.5	-12.0	-12.0
ISHARES RUSSELL 3000 INDEX		Large-cap Blend		1315.0	-11	No load	0.20	-21.6	-22.0	-22.0
ISHARES S&P 400 BARRA VALUE INDEX		Mid-cap Value		607.9	142	No load	0.25	-10.4	-10.7	-10.7
ISHARES S&P 400 MIDCAP INDEX		Mid-cap Blend		745.6	86	No load	0.20	-14.7	-14.9	-14.9
ISHARES S&P 500 BARRA GROWTH INDEX		Large-cap Growth		684.0	102	No load	0.18	-23.7	-23.9	-23.9
ISHARES S&P 500 BARRA VALUE INDEX		Large-cap Value		712.7	45	No load	0.18	-21.0	-21.4	-21.4
ISHARES S&P 500 INDEX		Large-cap Blend		4465.5	31	No load	0.09	-22.2	-22.5	-22.5
ISHARES S&P SMALL CAP 600 BARRA GRTH. INDEX		Small-cap Growth		515.1	546	No load	0.25	-15.5	-15.6	-15.6
ISHARES S&P SMALL CAP 600 BARRA VAL. INDEX		Small-cap Value		702.7	265	No load	0.25	-14.6	-14.9	-14.9
ISHARES S&P SMALL CAP 600 INDEX		Small-cap Blend		1168.2	135	No load	0.20	-14.7	-14.9	-14.9
JANUS	C	Large-cap Growth	B	17001.4	-34	No load	0.83	-27.6	-27.6	-27.6
JANUS ADVISER BALANCED I (s)	A	Domestic Hybrid	A	760.1	14	No load	1.17 †	-6.6	-7.1	-7.1

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. NA=Not available.

(m) Formerly Franklin Growth & Income Fund/A. (n) Formerly Franklin Strategic Srs: California Growth Fd/A. (o) Formerly Harbor Funds Capital Appreciation Fund. (p) Formerly Harbor International Fund. (q) Formerly Pilgrim International Value Fund/A. (r) Formerly INVESCO Equity Income Fund/Inv. (s) Formerly Janus Adviser: Balanced Fund.

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)					HISTORY	PORTFOLIO DATA					RISK				TELEPHONE		
5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	UNTAXED GAINS %	P/E RATIO	TOP 10 STKS. %	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST			
PRETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	% RET	QTR	% RET		
5.5	4.6	12.3	11	551111	Low	9	11	13	28	Bunge (3)	Very Low	II 99	17.6	III 98	-13.6	800-342-5236	
8	7.9	NA	NA	311445	Low	8	7	43	54	Amgen (12)	Very High	IV 99	61.3	I 01	-32.2	800-342-5236	
0	-0.8	8.3	6.4	313554	Average	7	5	20	22	Microsoft (2)	High	IV 99	37.2	III 01	-21.3	800-342-5236	
-0.4	-0.9	7.5	6.9	242334	Very Low	0	9	20	27	Northrop Grumman (4)	Low	IV 01	14.0	III 02	-18.8	800-342-5236	
3.6	1.1	7.9	5.1	451121	Low	2	8	NA	14	Philip Morris (2)	Very Low	III 00	9.0	III 02	-6.6	800-342-5236	
4.7	3.7	9.4	8	451111	Low	3	NA	16	41	Roper Inds (5)	Low	IV 98	19.1	III 98	-14.7	800-342-5236	
-0.1	-0.3	10.7	9.7	414445	Low		NA	NA	NA	NA	Very High	IV 99	59.8	III 01	-25.1	800-342-5236	
3	2.6	13.5	12.1	313554	Low	5	4	22	28	Tenet Healthcare (3)	High	IV 99	56.4	I 01	-26.0	800-342-5236	
NA	NA	NA	NA	24	Low	5	7	20	23	Stone Energy (2)		IV 01	26.9	III 01	-26.0	800-342-5236	
1.3	-0.7	5.7	3.6	451131	Low	0	8	15	43	FPL Group (6)	Low	III 00	26.7	III 02	-11.9	800-342-5236	
-0.4	-2	5.3	3.4	433332	High	3	39	19	19	U.S. Treasury Bonds 4/15/99 (4)	Low	IV 99	16.0	III 01	-11.4	800-548-4539	
2.5	1	10.6	8.5	332333	Low	6	16	20	16	SBC (2)	Low	IV 98	15.5	III 02	-17.6	800-421-0180	
4.5	3.2	11.5	9.6	323222	Low	1	10	18	20	News Corp. (4)	Low	IV 98	18.2	III 02	-15.4	800-422-3554	
-3.1	-4.1	7.6	5.3	124455	Low	0	5	29	45	Clear Channel (7)	High	IV 98	30.2	II 02	-23.7	800-422-3554	
5.3	4.1	13.5	10.9	223112	Low	0	12	20	41	Viacom (11)	Low	IV 98	16.8	II 02	-15.0	800-422-3554	
-1.5	-3.4	8.4	6.2	153332	High	0	7	21	25	Pfizer (4)	Average	IV 98	18.4	III 02	-18.8	800-848-0920	
4.4	3.9	6.9	5.8	342221	Average		4	19	24	General Electric (3)	Very Low	IV 02	9.6	III 02	-8.5	800-354-5525	
2.2	0.6	8.5	6.3	352221	High	6	7	18	20	Fannie Mae 30-Year Conv. (3)	Very Low	IV 98	9.1	III 02	-10.8	800-225-1581	
0.2	-1.1	7.6	5.9	334442	Low	2	94	20	20	BP Amoco(2)	Low	IV 98	15.5	III 02	-20.9	800-442-8299	
2.3	0.6	7.1	5.1	343331	Average	1	99	14	17	Roche (2)	Low	I 98	16.7	III 98	-15.1		
1.9	-0.8	11.5	7.7	233223	Average	0	4	16	26	Merck (4)	Low	IV 98	19.5	III 02	-17.1		
0	-0.7	8.1	6	133344	Very Low		NA	21	33	Microsoft (5)	Average	IV 98	24.3	III 01	-16.5	800-621-2550	
7.1	5.6	11.8	10	122333	Low	15	10	25	23	AOL Time Warner (3)	Average	IV 98	27.2	III 01	-20.6	800-421-0180	
-4.6	-6	7.9	6	225443	High	2	5	22	29	Microsoft (4)	High	IV 99	25.1	I 01	-20.5	800-221-3253	
-2.1	-2.2	NA	NA	451142	High	1	7	16	50	Citigroup (7)	Average	III 00	22.7	III 98	-20.2	800-225-5291	
0	-1.8	13.5	12	451111	Low	1	1	14	27	88&T (3)	Average	III 00	20.4	III 98	-16.5	800-225-5291	
-3.1	-3.8	6	5	311545	Average	4	6	23	15	Cree (1)	Very High	IV 99	43.9	III 01	-26.5	800-225-5291	
-0.5	-1.9	7.1	5.4	352223	Average	4	5	19	30	Bank America(4)	Low	IV 98	15.6	III 02	-13.9	800-225-5291	
-1.2	-2.4	9	7.5	125445	Average		10	25	29	Microsoft (4)	High	IV 98	30.0	III 01	-19.5	800-422-1050	
1.3	-0.2	10.2	8.9	333331	Very Low		98	22	33	8HP Billiton (4)	Low	IV 98	18.3	III 02	-21.3	800-422-1050	
2.2	1.3	NA	NA	243222	Low	2	2	19	23	U.S. Treasury Bonds 8/15/93 (4)	Very Low	IV 98	10.7	II 02	-9.7	800-800-2000	
6.1	5	NA	NA	411224	Average	2	22	17	27	Northrop Grumman (6)	High	IV 99	36.8	III 98	-21.9	800-800-2000	
0.8	0.2	NA	NA	352222	Average	7	9	16	26	ExxonMobil (3)	Low	IV 98	13.3	III 02	-18.3	800-800-2000	
13.3	12.6	NA	NA	221122	Average	5	11	19	22	Mattel (2)	Average	IV 99	29.8	III 02	-18.5	800-800-2000	
-0.1	-0.5	NA	NA	133344	Average	2	2	19	29	General Electric (5)	Average	IV 98	20.3	III 02	-17.3	800-800-2000	
5.3	3.9	11.7	10	532112	Average	5	10	12	24	U.S. Oncology (3)	Low	II 99	21.7	III 02	-20.3	800-432-7856	
0.9	0.3	NA	NA	342224	High	2	15	19	33	Citigroup (5)	Low	IV 98	16.5	III 02	-19.7	888-221-4227	
-1.5	-2.5	5.9	4.2	111555	Average	9	3	33	57	Viacom(9)	High	IV 99	31.8	III 01	-31.7	800-421-4339	
4.5	3.2	NA	NA	322333	Very Low	2	91	24	29	Repsol (5)	Average	IV 99	24.5	III 02	-22.2	800-992-0180	
-0.3	-1.1	NA	NA	243332	Average	14	3	22	31	U.S. Treasury Notes (3)	Low	IV 98	13.7	III 01	-12.5	800-525-8085	
-1	-2.7	7.2	4.9	342233	Low	8	6	20	25	Anheuser Busch (3)	Low	IV 98	12.3	III 02	-17.9	800-525-8085	
-2.6	-3.1	7.3	5.2	213555	Low	0	8	23	18	Forest Labs (3)	Very High	IV 99	38.8	III 01	-35.0	800-525-8085	
2	1.9	0.7	12.4	10	351132	Average	5	5	15	46	Wells Fargo (6)	Average	III 00	22.8	III 98	-18.2	800-525-8085
3	1.4	8.4	6.4	151144	High	14	14	27	46	Tenet Healthcare (5)	Average	I 98	16.9	I 01	-22.9	800-525-8085	
11.7	10.3	13.6	11.7	113112	Low	0	19	18	46	Harrah's Entertainment (8)	Average	IV 99	25.6	III 01	-24.1	800-525-8085	
-0.1	-1.2	7.3	5.1	314445	Average	13	3	24	23	Investors Finl. Services (2)	Very High	IV 99	46.7	III 01	-28.7	800-525-8085	
-6.7	-7	5.2	3	111555	Average	10	8	32	34	Microsoft (6)	Very High	IV 99	66.8	III 01	-41.4	800-525-8085	
-1.3	-2.6	6.9	5.6	353222	Average	8	3	17	28	Fannie Mae Pool (4)	Low	IV 98	10.0	III 02	-11.3	800-525-8085	
4.1	1.8	9.4	6.9	452111	Low	16	7	16	10	Ford Pfd. (1)	Very Low	IV 98	8.2	III 02	-10.3	800-421-0180	
4	2.2	10.6	8.6	242222	Low	8	7	20	19	Philip Morris (4)	Low	IV 98	17.3	III 02	-14.5	800-421-0180	
NA	NA	NA	NA	2	Very Low	0	99	NA	19	BP Amoco (3)		IV 01	6.7	III 02	-19.7	800-776-0179	
-6	-6.2	NA	NA	415551	Low		100	NA	26	Toyota (5)	High	IV 98	26.3	III 01	-18.8	800-776-0179	
NA	NA	NA	NA	5	Low	0	1	41	40	Amgen (19)		II 01	32.1	II 02	-34.1	800-776-0179	
NA	NA	NA	NA	44	Low	0	4	22	33	General Electric (6)		IV 01	14.9	IV 00	-21.4	800-776-0179	
NA	NA	NA	NA	33	Low	0	3	19	21	General Electric (3)		IV 01	11.0	III 02	-16.9	800-776-0179	
NA	NA	NA	NA	22	Low	0	1	16	24	ExxonMobil (6)		IV 02	9.1	III 02	-18.8	800-776-0179	
NA	NA	NA	NA	35	Very Low	0	2	18	4	Corinthian Colleges (1)		IV 01	25.7	III 01	-28.1	800-776-0179	
NA	NA	NA	NA	13	Low	0	1	16	2	Smucker (0)		IV 01	20.8	III 02	-21.4	800-776-0179	
NA	NA	NA	NA	12	Low	0	1	15	4	Healthcare Realty Trust (0)		IV 01	16.3	III 02	-21.2	800-776-0179	
NA	NA	NA	NA	33	Low	0	3	18	20	General Electric (3)		IV 01	11.4	III 02	-17.2	800-776-0179	
NA	NA	NA	NA	11	Very Low	0	2	15	13	M&T Bank (2)		IV 01	14.6	III 02	-18.5	800-776-0179	
NA	NA	NA	NA	22	Very Low	0	3	18	9	M&T Bank (1)		IV 01	18.0	III 01	-16.6	800-776-0179	
NA	NA	NA	NA	34	Low	0	4	22	40	General Electric (6)		IV 01	13.0	I 01	-17.4	800-776-0179	
NA	NA	NA	NA	33	Low	0	4	16	29	ExxonMobil (6)		IV 02	9.8	III 02	-20.5	800-776-0179	
NA	NA	NA	NA	33	Very Low	0	4	19	24	General Electric (3)		IV 01	10.6	III 02	-17.3	800-776-0179	
NA	NA	NA	NA	22	Low		2	19	13	Alliant Techsystems (2)		IV 01	20.3	III 01	-17.3	800-776-0179	
NA	NA	NA	NA	12	Very Low		1	15	10	Pogo Producing (1)		IV 01	20.8	III 02	-22.5	800-776-0179	
NA	NA	NA	NA	12	Very Low	0	1	17	7	Alliant Techsystems (1)		IV 01	20.6	III 02	-18.6	800-776-0179	
-6	-1.4	-2.4	6.8	5	124554	Low	0	8	25	41	Viacom (6)	High	IV 98	28.4	III 01	-25.8	800-525-3713
-8	7.9	6.8	NA	NA	133211	Average	14	4	22	30	Fannie Mae (4)	Very Low	IV 98	19.1	III 01	-5.6	800-525-3713

Data: Standard & Poor's

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 2001-2002	FEEES SALES CHARGE (%)	EXPENSE RATIO (%)	2002 RETU PRE- TAX	AFT T
JANUS ADVISER CAPITAL APPRECIATION I (t)	A	Large-cap Growth	A	689.0	19	No load	1.18 †	-15.8	-1
JANUS ADVISER INTERNATIONAL I (u)	B	Foreign	B+	517.6	3	No load	1.24 †	-25.6	-29
JANUS ADVISER WORLDWIDE I (v)	B	World	B	1162.6	7	No load	1.20 †	-26.0	-20
JANUS ASPEN CAP APPRECIATION INSTL.	A	Large-cap Growth	A	564.1	-25	No load	0.66	-15.7	-14
JANUS ASPEN GROWTH INSTL.	C	Large-cap Growth	C	1644.3	-33	No load	0.66	-26.5	-20
JANUS ASPEN INTERNATIONAL GROWTH INSTL.	C	Foreign	B	647.7	-25	No load	0.71	-25.6	-29
JANUS ASPEN WORLDWIDE GROWTH INSTL.	C	World	B	3955.1	-30	No load	0.69	-25.5	-29
JANUS BALANCED	A	Domestic Hybrid	A	3994.0	-11	No load	0.83	-6.6	-
JANUS CORE EQUITY	B+	Large-cap Blend	A	-733.4	-7	No load	0.93	-18.0	-18
JANUS ENTERPRISE	C-	Mid-cap Growth	C	1727.6	-47	No load	0.90	-28.3	-28
JANUS GLOBAL LIFE SCIENCES		Health		1340.6	-45	No load	0.91	-30.1	-30
JANUS GLOBAL TECHNOLOGY		Technology		1357.1	-46	No load	0.90	-40.9	-40
JANUS GROWTH & INCOME	B+	Large-cap Growth	A	5575.6	-20	No load	0.86	-21.5	-21
JANUS MERCURY	B+	Large-cap Growth	A	5327.4	-37	No load	0.88	-29.0	-29
JANUS OLYMPUS	B+	Large-cap Growth	A	2188.4	-35	No load	0.89	-28.2	-28
JANUS OVERSEAS	C	Foreign	B	3364.1	-36	No load	0.85	-23.9	-24
JANUS SPECIAL SITUATIONS	C	Large-cap Growth	B	677.6	-34	No load	0.94	-29.0	-29
JANUS STRATEGIC VALUE		Large-cap Value		1374.6	-34	No load	0.91	-23.7	-23
JANUS TWENTY	B	Large-cap Growth	B+	10238.0	-33	No load	0.84	-24.0	-24
JANUS VENTURE	C	Small-cap Growth	C	800.4	-27	No load	0.86	-27.2	-27
JANUS WORLDWIDE	C	World	C	13793.3	-36	No load	0.85	-26.6	-26
JENSEN	A	Large-cap Growth	A	1038.9	1029	No load	1.00 †	-11.0	-11
JULIUS BAER INTERNATIONAL EQUITY A	A	Foreign	A	692.5	124	No load *	1.40 †	-3.6	-4
LEGG MASON OPPORTUNITY TRUST		All Cap		1534.4	-8	No load *	1.89 †	-15.5	-15
LEGG MASON SPECIAL INVESTMENT TRUST	A	Small-cap Blend	B+	2170.8	3	No load	1.79 †	-8.7	-9
LEGG MASON VALUE TRUST	B+	Large-cap Blend	A	7853.2	-19	No load	1.68 †	-18.9	-18
LIBERTY A	C	Domestic Hybrid	D	639.4	-20	5.75 **	1.13 †	-12.1	-12
LIBERTY ACORN INTERNATIONAL Z	B	Foreign	B+	1259.4	-25	No load	1.06	-16.1	-16
LIBERTY ACORN Z	A	Small-cap Value	B+	4123.1	3	No load	0.82	-13.3	-13
LIBERTY EQUITY GROWTH Z (w)	C	Large-cap Blend	C	730.1	-23	No load	0.93	-26.8	-26
LIBERTY GROWTH & INCOME B	B	Large-cap Value	B+	786.9	-14	No load *	2.06 †	-22.4	-22
LIBERTY LARGE COMPANY INDEX Z (x)	C	Large-cap Blend	C	672.7	-18	No load	0.40	-22.1	-22
LIBERTY SMALL CAP Z (y)	B+	Small-cap Value	B	521.2	26	No load	0.92	-8.2	-9
LIBERTY YOUNG INVESTOR Z (z)	C-	Large-cap Growth	C-	663.3	-21	No load	1.26	-24.6	-24
LONGLEAF PARTNERS	A	Large-cap Value	A	4973.6	19	No load	0.94	-8.3	-8
LONGLEAF PARTNERS INTERNATIONAL		Foreign		1137.9	47	No load	1.82	-16.5	-17
LONGLEAF PARTNERS SMALL CAP	B+	Small-cap Value	B	1754.3	8	No load	0.96	-3.7	-4
LORD ABBETT AFFILIATED A	B	Large-cap Value	B	9462.7	-6	5.75 **	0.79 †	-18.8	-19
LORD ABBETT DEVELOPING GROWTH A	D	Small-cap Growth	C-	662.7	-33	5.75 **	1.24 †	-29.5	-29
LORD ABBETT MID CAP VALUE A	A	Mid-cap Value	B+	2230.6	94	5.75 **	1.22 †	-9.7	-10
MAINSTAY CAPITAL APPRECIATION B	D	Large-cap Growth	C-	1247.2	-39	No load *	1.85 †	-32.1	-32
MAINSTAY EQUITY INDEX A	C	Large-cap Blend	C	634.8	-33	3.00 **	0.97 †	-22.7	-23
MAINSTAY TOTAL RETURN B	C	Domestic Hybrid	C	821.3	-29	No load *	1.93 †	-18.4	-18
MAINSTAY VALUE B	C-	Large-cap Value	D	554.1	-26	No load *	1.95 †	-22.6	-22
MAIRS & POWER GROWTH	A	All Cap	B+	770.1	17	No load	0.76	-7.7	-8
MANAGERS SPECIAL EQUITY	B	Small-cap Blend	C	2144.1	-1	No load	1.30	-22.0	-22
MARSICO FOCUS	B+	Large-cap Blend	A	1430.2	1	No load	1.30 †	-16.7	-16
MARSICO GROWTH (aa)	B+	Large-cap Blend	A	648.0	8	No load	1.33 †	-16.8	-16
MASSACHUSETTS INVESTORS GROWTH STK. A	C	Large-cap Growth	C	6563.0	-22	5.75 **	0.94 †	-28.4	-28
MASSACHUSETTS INVESTORS TRUST A	C-	Large-cap Blend	D	3900.7	-32	5.75 **	0.91 †	-22.3	-22
MELLON INTERNATIONAL M (ab)		Foreign		558.7	42	No load	1.30	-10.4	-10
MELLON LARGE CAP STOCK M (ac)		Large-cap Blend		1350.2	-26	No load	1.07	-22.6	-22
MELLON MID CAP STOCK M (ad)		Mid-cap Blend		979.8	14	No load	1.25	-19.2	-19
MERCURY INTERNATIONAL VALUE I (ae)	C	Foreign	B	511.6	-17	5.25 **	1.14	-14.6	-14
MERGER	A	Domestic Hybrid	A	896.5	-16	No load	1.38 †	-5.7	-6
MERIDIAN VALUE	A	Mid-cap Blend	A	1209.6	22	No load	1.12	-13.4	-13
MERRILL LYNCH BALANCED CAPITAL B	C	Domestic Hybrid	D	816.6	-39	No load *	1.59 †	-14.3	-14
MERRILL LYNCH BASIC VALUE B	C	Large-cap Value	C	1795.4	-28	No load *	1.58 †	-17.6	-18
MERRILL LYNCH FUNDAMENTAL GROWTH B	C	Large-cap Growth	B	1705.2	-25	No load *	1.96 †	-29.5	-29
MERRILL LYNCH GLOBAL ALLOCATION B	B+	International Hybrid	B+	1875.4	-29	No load *	1.96 †	-8.7	-9
MERRILL LYNCH MASTER SMALL CAP VALUE B	A	Small-cap Value	B+	745.3	-11	No load *	2.01 †	-23.9	-24
MFS CAPITAL OPPORTUNITIES A	C-	Large-cap Blend	C-	1706.8	-35	5.75 **	1.18 †	-30.5	-30
MFS EMERGING GROWTH A	F	Large-cap Growth	D	2899.3	-38	5.75 **	1.18 †	-35.4	-35
MFS MID CAP GROWTH A	C	Mid-cap Growth	C	960.6	-18	5.75 **	1.39 †	-47.5	-47
MFS NEW DISCOVERY A	B	Small-cap Growth	B	792.7	-27	5.75 **	1.58 †	-33.5	-33
MFS RESEARCH A	C-	Large-cap Blend	D	1721.1	-29	5.75 **	1.08 †	-24.8	-24
MFS STRATEGIC GROWTH A	C	Large-cap Growth	C	701.7	-39	5.75 **	1.45 †	-29.9	-29
MFS TOTAL RETURN A	B+	Domestic Hybrid	B+	4873.1	12	4.75 **	0.92 †	-5.6	-6
MFS VALUE A	B+	Large-cap Value	B+	2048.2	71	5.75 **	1.25 †	-14.0	-14
J.P. MORGAN DISCIPLINED EQUITY INSTL.	C	Large-cap Blend	C	1021.8	-9	No load	0.45	-24.8	-25

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. NA=Not available.

(t) Formerly Janus Adviser: Capital Appreciation Fund. (u) Formerly Janus Adviser: International Fund. (v) Formerly Janus Adviser: Worldwide Fund. (w) Formerly Janus Equity Growth/Trust. (x) Formerly Janus Funds II Large Company Index. (y) Formerly Janus Small Cap Value/Trust. (z) Formerly Janus Investment Trust: Young Investor Fund. (aa) Formerly Marsico Growth & Income Fund. (ab) Formerly MPAM International Fund/MPAM. (ac) Formerly MPAM Large Cap Stock Fund/MPAM. (ad) Formerly MPAM Mid Cap Stock Fund/MPAM. (ae) Formerly Hotchkiss & Wiley International Value Fund.

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)				HISTORY PORTFOLIO DATA							RISK				TELEPHONE		
5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	UNTAXED GAINS %	P/E RATIO	TOP 10 STKS. %	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST			
PRETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	% RET	QTR	% RET		
7.6	7.5	NA	NA	11442	Average	30	0	22	64	UnitedHealth Group (7)	Average	IV 99	41.6	I 01	-17.4	800-525-3713	
1.1	0.8	NA	NA	31454	Average	17	81	39	33	Total Fina (3)	Average	IV 99	58.3	III 01	-19.1	800-525-3713	
0.9	0.3	NA	NA	11444	Average	12	51	33	26	Citigroup (3)	Average	IV 99	42.1	III 01	-19.5	800-525-3713	
7.4	7.1	NA	NA	11542	Average	16	NA	25	58	UnitedHealth Group (8)	High	IV 99	41.8	III 01	-18.7	800-525-3713	
-1.6	-2.3	NA	NA	12454	Low	1	7	30	37	Comcast (5)	High	IV 98	27.7	III 01	-24.8	800-525-3713	
0.5	0	NA	NA	21454	Average	12	86	31	25	Total Fina (3)	High	IV 99	58.5	III 01	-20.4	800-525-3713	
0.7	0	NA	NA	11444	Average	11	52	19	18	Citigroup (3)	Average	IV 99	42.2	III 01	-20.5	800-525-3713	
7.1	6	10.8	9	13321	High	12	7	22	22	Automatic Data Processing (2)	Very Low	IV 98	18.8	III 01	-5.9	800-525-3713	
5.3	4.5	NA	NA	12333	High	7	11	21	34	Automatic Data Processing (3)	Low	IV 98	26.3	III 02	-15.3	800-525-3713	
-2.3	-3	5.8	4.8	11555	Low	14	7	21	29	Berkshire Hathaway (3)	Very High	IV 99	57.9	I 01	-32.7	800-525-3713	
NA	NA	NA	NA	1145	Average	1	18	23	31	Oxford Health Plans (4)		IV 99	31.3	I 01	-26.3	800-525-3713	
NA	NA	NA	NA	1355	Low	15	21	36	45	Electronic Arts (6)		IV 99	74.0	III 01	-36.2	800-525-3713	
4	3.1	11	9.5	12443	Average	13	7	18	34	Citigroup (4)	Average	IV 99	29.2	III 02	-16.4	800-525-3713	
3.7	2.5	NA	NA	11555	Average	5	4	22	35	Liberty Media (6)	High	IV 99	42.7	I 01	-24.3	800-525-3713	
3.7	3.5	NA	NA	11555	High	9	4	23	29	Harley Davidson (3)	High	IV 99	51.7	I 01	-26.3	800-525-3713	
0.6	-0.1	NA	NA	31552	Average	4	92	15	20	Total Fina (3)	High	IV 99	60.6	III 01	-20.8	800-525-3713	
-1.2	-2.1	NA	NA	21545	Average		8	18	50	Liberty Media (9)	High	IV 98	28.5	III 01	-25.6	800-525-3713	
NA	NA	NA	NA	34	Average		15	19	51	Liberty Media (6)		IV 01	16.9	III 01	-22.3	800-525-3713	
0.8	0.3	8.5	6.7	11552	Low	19	NA	25	58	Microsoft (9)	High	IV 99	38.4	IV 00	-25.4	800-525-3713	
0.5	-1.2	6.2	3.7	21552	Low	2	13	19	24	Biosite Diagnostics (4)	Very High	IV 99	82.8	IV 00	-30.2	800-525-3713	
-0.5	-1.1	9.2	8.1	21454	Average	9	60	16	21	Citigroup (3)	Average	IV 99	42.1	III 01	-20.8	800-525-3713	
7.8	7.1	9.7	9	34121	Very Low	2	NA	20	54	State Street (6)	Low	IV 98	17.2	II 02	-12.4	800-221-4384	
10	9.5	NA	NA	11341	Average	14	85	19	22	Topix (3)	Low	IV 99	50.6	III 98	-16.4	800-435-4659	
NA	NA	NA	NA	312	Average	1	7	NA	53	Amazon.Com (8)		IV 01	22.8	III 01	-29.5	800-822-5544	
6.5	4.9	11	9.7	22411	Low	1	5	17	48	Wellpoint Health (7)	Average	IV 98	40.1	III 01	-26.3	800-822-5544	
5.1	3.9	14.5	13.2	13333	Average	1	14	NA	57	UnitedHealth Group (8)	Average	IV 98	35.9	III 01	-20.0	800-822-5544	
-0.7	-2.3	7.5	5.2	34332	Average	2	2	17	18	Fannie Mae 15-Year 6.5% (3)	Low	IV 98	11.3	III 02	-10.9	800-345-6611	
1.8	0.7	7.5	6.6	31542	Average	5	97	15	14	Stinnes (2)	Average	IV 99	41.6	III 02	-19.7	800-345-6611	
7.4	5.6	12.5	10.3	42212	Very Low	7	13	17	16	Int. Game Technology (4)	Low	IV 99	21.9	III 98	-19.5	800-345-6611	
-1.2	-2.3	7.8	6.3	23344	Average	5	9	22	28	Microsoft (5)	Average	IV 98	24.2	III 01	-17.2	800-345-6611	
3.1	1.4	10.3	8.3	24124	Average	7	8	14	41	Berkshire Hathaway (6)	Low	IV 98	21.4	III 02	-20.2	800-345-6611	
-0.8	-1.8	9	7.8	13433	Low	2	4	20	24	Microsoft (3)	Average	IV 98	21.2	III 02	-17.0	800-345-6611	
6.1	4	12.4	9.9	32111	Average	6	3	15	17	Invacare (2)	Low	II 99	16.6	III 02	-17.7	800-345-6611	
-3.9	-4.5	NA	NA	22444	Low	3	9	19	35	Johnson & Johnson (5)	High	IV 99	28.2	III 01	-24.6	800-345-6611	
7.3	5.2	14.1	11.8	35111	Low	2	10	22	57	Walt Disney (7)	Low	IV 98	18.5	III 98	-18.4	800-445-9469	
NA	NA	NA	NA	3112	Low	3	84	16	61	Nippon Fire (10)		II 99	15.7	III 02	-19.6	800-445-9469	
6.1	4.4	12.8	11.2	35111	Low	2	9	19	53	Level 3 Communications (10)	Low	IV 98	14.5	III 02	-16.3	800-445-9469	
2.9	1	10.4	7.7	32133	Average		2	23	26	ExxonMobil (4)	Low	IV 98	17.1	III 02	-19.7	800-201-6984	
-4.2	-4.5	8.4	6.4	42525	Low		5	18	17	Timberland (2)	High	IV 98	28.3	III 02	-23.8	800-201-6984	
9.2	7.9	13.1	10.2	55111	Low		10	20	28	Halliburton (4)	Low	II 99	17.6	III 98	-17.3	800-201-6984	
-5	-6	5.6	4.8	13455	Low	0	3	23	32	UnitedHealth Group (5)	High	IV 98	26.9	I 01	-20.1	800-624-6782	
-0.8	-1.4	9.2	8.3	13434	Low	2	4	19	23	General Electric (3)	Average	IV 98	25.3	III 02	-17.3	800-624-6782	
-0.3	-1.6	6.1	4.7	24333	High	1	4	23	19	UnitedHealth Group (2)	Low	IV 98	16.9	I 01	-11.6	800-624-6782	
-3.5	-4.5	5.9	4.5	34224	High	6	5	17	30	American Standard (3)	Average	II 99	13.2	III 02	-23.2	800-624-6782	
7.8	6.7	15.5	14.3	33111	Very Low		NA	20	45	Wells Fargo (6)	Low	IV 98	17.5	III 98	-13.2	800-304-7404	
1	1.5	0.8	9.9	41333	Average	9	3	21	21	iShares Russell 2000 (3)	High	IV 99	35.9	III 01	-23.7	800-835-3879	
4.9	4.5	NA	NA	11542	High	3	8	22	50	SLM (7)	Average	IV 99	34.8	I 01	-18.6	888-860-8686	
9	4.2	4	NA	11442	High	4	7	22	41	UnitedHealth Group (6)	Average	IV 99	35.0	III 01	-17.5	888-860-8686	
1	-0.6	-1.6	9.2	6.3	12355	Very High	3	9	24	Pfizer (4)	High	IV 99	28.2	III 01	-21.6	800-225-2606	
8	-3.1	-3.7	7.9	5.9	24344	High	2	7	19	Pfizer (3)	Average	IV 98	18.6	III 02	-16.2	800-225-2606	
NA	NA	NA	NA	31	Low	7	93	NA	21	Allied Omeccq (2)		IV 01	6.9	III 02	-20.4	800-445-1854	
NA	NA	NA	NA	34	Average	1	2	19	25	Microsoft (3)		IV 01	10.8	III 02	-15.8	800-445-1854	
NA	NA	NA	NA	23	Average	1	5	17	13	IOEC Pharmaceuticals (2)		IV 01	16.4	III 02	-16.0	800-445-1854	
0	0	-1.4	7.8	6.5	43232	Average		100	NA	26	Glaxosmithkline (3)	Low	IV 98	15.5	III 02	-23.3	800-637-3863
8	6.9	5.3	9.5	7.5	43111	Very High	28	24	25	TRW (8)	Very Low	IV 98	7.3	III 98	-6.0	800-343-8959	
2	16.9	15.8	NA	NA	22112	Average	4	3	18	28	Waste Management (4)	Low	II 99	25.0	III 98	-17.5	800-446-6662
4	-1.3	-3	6.4	4.2	45222	Low	5	7	NA	17	Viacom (2)	Low	IV 98	10.8	III 02	-13.6	800-637-3863
8	0.1	-1.8	9.2	7.3	34223	Average	3	8	NA	32	Wells Fargo (5)	Low	II 99	13.1	III 02	-19.8	800-637-3863
20	-1.3	-2	NA	NA	12345	Average	4	NA	NA	38	Microsoft (6)	Average	IV 98	27.1	II 02	-16.8	800-637-3863
7	4.6	2.5	8.5	6.2	53211	Low	15	36	NA	10	Millea Holdings (1)	Very Low	II 99	12.2	III 02	-14.4	800-637-3863
2	6.8	5	11.5	9	52114	Average	10	1	NA	20	Symbol Technologies (3)	Average	IV 01	28.1	III 98	-26.0	800-637-3863
5	-1.5	-2.7	9.2	7	12355	High	1	13	20	26	Viacom (5)	High	IV 99	28.7	III 01	-27.8	800-225-2606
5	-7.8	-8.2	NA	NA	22555	High	2	5	22	21	Viacom (3)	Very High	IV 99	35.9	III 01	-31.5	800-225-2606
2	-0.6	-2.3	NA	NA	21245	Average	4	8	24	20	Cytec (3)	Very High	IV 99	39.9	II 02	-33.9	800-225-2606
3	3.6	2.8	NA	NA	21325	Average	6	3	21	18	Caremark Rx (3)	High	IV 99	55.2	III 01	-23.9	800-225-2606
2	-3.1	-4	8	6.4	23344	High	0	11	19	29	Pfizer (4)	Average	IV 98	22.0	III 01	-19.6	800-225-2606
1	-0.4	-1.4	NA	NA	12455	High	2	8	22	29	Viacom (5)	High	IV 99	29.3	III 01	-25.4	800-225-2606
3	5.1	3	9.7	7.2	35121	Average	8	10	20	13	Fannie Mae 5.5% (1)	Very Low	III 00	7.6	III 02	-8.2	800-225-2606
4	5.1	4.5	NA	NA	24122	Average	3	12	17	24	Citigroup (3)	Low	IV 98	11.8	III 02	-15.4	800-225-2606
3	-1.5	-2.1	NA	NA	13434	Average	1	4	21	25	Microsoft (4)	Average	IV 98	22.9	III 02	-17.7	800-348-4782

Data: Standard & Poor's

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	RATING	SIZE		FEES		2002 RETURN	
				ASSETS \$MIL.	% CHG. 2001-2002	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER TAX
J.P. MORGAN GROWTH & INCOME A	C-	Large-cap Value	D	656.4	-25	5.75	1.30 †	-17.8	-18
MORGAN STANLEY AMERICAN OPPORTUNITIES B	C	Large-cap Growth	B	4163.2	-34	No load *	1.61 †	-23.1	-23
MORGAN STANLEY DIVIDEND GROWTH SECURITIES B	C-	Large-cap Value	C-	6913.6	-31	No load *	1.49 †	-19.4	-20
MORGAN STANLEY EUROPEAN GROWTH B	C	Europe	B	891.6	-33	No load *	2.10 †	-19.1	-19
MORGAN STANLEY GLOBAL DIVIDEND GROWTH SEC. B	C	World	C	1236.2	-26	No load *	1.93 †	-13.6	-13
MORGAN STANLEY INSTL. EMERGING MARKETS A	C-	Diversified Emerging Markets	B	700.1	-11	No load	1.65	-6.2	-6
MORGAN STANLEY INSTL. INTL. EQUITY A	B+	Foreign	A	3952.4	0	No load	1.00	-4.0	-4
MORGAN STANLEY INSTL. MID CAP VALUE	B	Mid-cap Blend	C	704.6	-43	No load	0.89	-28.6	-28
MORGAN STANLEY INSTL. SMALL CAP VALUE	C	Small-cap Value	C-	630.0	-44	No load	0.89	-15.1	-15
MORGAN STANLEY INSTL. U.S. REAL ESTATE A	B+	Real Estate	B+	735.2	9	No load	1.00	0.2	-1
MORGAN STANLEY INSTL. VALUE INST.	C	Large-cap Value	C	527.8	-16	No load	0.62	-22.7	-23
MORGAN STANLEY S&P 500 INDEX B	C-	Large-cap Blend	C-	1149.8	-25	No load *	1.50 †	-23.2	-23
MORGAN STANLEY SPECIAL VALUE B	B	Small-cap Value	C	519.6	-12	No load *	1.95 †	-18.7	-18
MORGAN STANLEY STRATEGIST B	B	Domestic Hybrid	C	1118.6	-33	No load *	1.67 †	-16.1	-16
MORGAN STANLEY UTILITIES B	C-	Utilities	C	1027.5	-42	No load *	1.66 †	-20.3	-21
MORGAN STANLEY VALUE-ADDED MARKET B	B	Large-cap Value	B+	895.9	-12	No load *	1.60 †	-16.2	-16
MUHLKAMP	B+	All Cap	B	642.3	33	No load	1.17	-19.9	-19
MUTUAL BEACON Z	B+	Mid-cap Value	B	2618.6	-14	No load	0.79	-11.0	-11
MUTUAL DISCOVERY Z	B+	World	A	1704.6	-11	No load	1.02	-9.1	-9
MUTUAL QUALIFIED Z	B+	Mid-cap Value	B	2558.0	-14	No load	0.79	-12.7	-13
MUTUAL SHARES Z	B+	Mid-cap Value	B	4663.9	-13	No load	0.77	-10.9	-11
NASDAQ 100 INDEX TRACKING STOCK		Large-cap Growth		20500.3	-9	No load	0.18	-37.4	-37
NATIONS INTL. EQUITY PRIME A	C	Foreign	B	573.4	13	No load	1.16	-14.5	-14
NATIONS INTL. VALUE INV. A	B+	Foreign	B+	591.8	9	5.75 **	1.44 †	-17.8	-18
NATIONS MARSICO FOCUSED EQUITY INV. A	B+	Large-cap Growth	A	569.4	21	5.75 **	1.36 †	-15.7	-15
NATIONS MID CAP INDEX PRIME A		Mid-cap Blend		906.9	87	No load	0.35	-15.0	-15
NEUBERGER BERMAN FOCUS INV.	C	All Cap	C-	1073.7	-31	No load	0.87	-36.4	-36
NEUBERGER BERMAN GENESIS INV.	A	Small-cap Blend	B+	1077.9	9	No load	1.10	-3.0	-3
NEUBERGER BERMAN GUARDIAN INV.	D	Large-cap Value	D	1236.5	-37	No load	0.88	-25.7	-26
NEUBERGER BERMAN PARTNERS INV.	C-	Large-cap Value	D	1185.0	-28	No load	0.87	-24.8	-24
NEW ECONOMY A	C	World	C	5882.4	-27	5.75 **	0.82 †	-26.0	-26
NEW PERSPECTIVE A	B+	World	B+	23358.1	-15	5.75 **	0.82 †	-16.1	-16
NEW WORLD A		Diversified Emerging Markets		1122.8	0	5.75 **	1.29 †	-4.6	-5
NICHOLAS	D	Large-cap Blend	D	2255.5	-27	No load	0.73	-21.8	-21
NORTHERN GROWTH EQUITY	C	Large-cap Growth	B	639.6	-27	No load	1.00	-23.3	-23
OAKMARK EQUITY & INCOME I	A	Domestic Hybrid	A	2704.4		No load	0.96	-2.1	-2
OAKMARK I	B	Mid-cap Value	C-	3924.9		No load	1.17	-14.4	-14
OAKMARK INTERNATIONAL I	B+	Foreign	B+	1733.0		No load *	1.31	-8.5	-8
OLD WESTBURY CAPITAL OPPORTUNITY	B	Mid-cap Blend	C	520.1	10	No load	1.23 †	-12.2	-12
OLSTEIN FINANCIAL ALERT C	A	All Cap	A	1076.7	50	No load *	2.17 †	-19.3	-19
ONE GROUP LARGE CAP VALUE I	C	Large-cap Value	C-	1080.7	-16	No load	0.98	-22.7	-22
ONE GROUP MID CAP GROWTH I	B+	Mid-cap Growth	B+	1293.5	-5	No load	0.99	-20.2	-20
ONE GROUP MID CAP VALUE I	B+	Mid-cap Value	B	1131.9	-1	No load	0.97	-12.9	-13
ONE GROUP SMALL CAP VALUE I	B+	Small-cap Value	B	539.0	35	No load	0.99	-10.9	-11
OPPENHEIMER CAPITAL APPRECIATION A	B	Large-cap Growth	B+	3781.1	17	5.75 **	1.22 †	-26.3	-26
OPPENHEIMER CAPITAL INCOME A	C	Domestic Hybrid	D	1851.7	-21	5.75 **	0.98 †	-16.1	-17
OPPENHEIMER DISCOVERY A	C-	Small-cap Growth	C-	652.2	-21	5.75 **	1.45 †	-24.1	-24
OPPENHEIMER GLOBAL A	B+	World	B+	5003.6	-11	5.75 **	1.23 †	-22.4	-22
OPPENHEIMER GLOBAL GROWTH & INCOME A	B	World	B+	1043.9	-18	5.75 **	1.40 †	-27.0	-27
OPPENHEIMER GROWTH A	D	Large-cap Growth	C-	1103.9	-29	5.75 **	1.31 †	-25.7	-25
OPPENHEIMER MAIN STREET GROWTH & INC. A	C	Large-cap Blend	C	6371.8	-12	5.75 **	0.99 †	-19.4	-19
OPPENHEIMER MULTIPLE STRATEGIES A	B	Domestic Hybrid	C	519.3	-14	5.75 **	1.15 †	-10.6	-11
OPPENHEIMER QUEST BAL. VALUE B	B+	Domestic Hybrid	B+	1935.2	-3	No load *	2.07 †	-20.4	-20
OPPENHEIMER QUEST OPP. VALUE A	C	Large-cap Value	C	1212.8	-8	5.75 **	1.51 †	-17.6	-17
OPPENHEIMER QUEST VALUE A	C-	Large-cap Value	C-	515.1	-15	5.75 **	1.57 †	-18.9	-18
OPPENHEIMER TOTAL RETURN A	C	Large-cap Growth	B	2013.8	-23	5.75 **	0.90 †	-17.8	-17
PAX WORLD BALANCED	B+	Domestic Hybrid	B+	1052.9	-9	No load	0.94 †	-8.9	-9
PBHG GROWTH	F	Mid-cap Growth	D	1322.6	-47	No load	1.32	-30.4	-30
PIMCO PEA GROWTH C (af)	C-	Large-cap Growth	C-	720.8	-41	No load *	1.91 †	-29.7	-29
PIMCO PEA RENAISSANCE A (ag)	A	Mid-cap Value	B+	1127.1	53	5.50 **	1.24 †	-26.1	-26
PIMCO PEA TARGET C (ah)	B	Mid-cap Growth	B	547.7	-41	No load *	1.96 †	-33.2	-33
PHOENIX-ENGEMANN CAPITAL GROWTH A	F	Large-cap Growth	D	849.5	-36	5.75	1.17 †	-25.4	-25
PHOENIX-OAKHURST BALANCED A	B	Domestic Hybrid	C	997.7	-20	5.75	1.00 †	-11.6	-12
PIONEER A	C	Large-cap Blend	B	4863.9	-20	5.75 **	1.14 †	-20.3	-20
PIONEER MID CAP VALUE A	B	Mid-cap Value	C	945.7	-3	5.75 **	1.24 †	-12	-12
PIONEER VALUE A	C-	Large-cap Value	D	3387.1	-19	5.75 **	1.16 †	-18.8	-19
T. ROWE PRICE BALANCED	B	Domestic Hybrid	B	1617.7	-10	No load	0.83	-8.5	-9
T. ROWE PRICE BLUE CHIP GROWTH	C	Large-cap Growth	B	4868.1	-21	No load	0.96	-24.2	-24
T. ROWE PRICE CAPITAL APPRECIATION	A	Domestic Hybrid	A	1855.7	36	No load	0.86	0.5	-0
T. ROWE PRICE DIVIDEND GROWTH	C	Large-cap Blend	B	558.9	-18	No load	0.82	-18.5	-18

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. NA=Not available.

(af) Formerly PIMCO Funds: Growth Fund/C. (ag) Formerly PIMCO Funds: Renaissance Fund/A. (ah) Formerly PIMCO Funds: Target Fund/C.

EQUITY FUNDS

FUND	ANNUAL TOTAL RETURNS (%)				HISTORY RESULTS VS. ALL FUNDS	PORTFOLIO DATA						LARGEST HOLDING COMPANY (% ASSETS)	RISK				TELEPHONE
	5 YEARS		10 YEARS			TURNOVER	CASH %	UNTAILED GAINS %	P/E RATIO	TOP 10 STKS. %	LEVEL		BEST		WORST		
	PRETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	% RET	QTR	% RET	
7	-2.5	-4.2	6.6	4.6	343333	Very Low	2	4	17	32	ExxonMobil (6)	Average	IV 98	16.6	III 02	-18.1	800-348-4782
3	-0.7	-2.4	8.2	5.9	124354	Very High	13	7	25	36	U.S. Treasury Notes (4)	Average	IV 99	34.9	I 01	-20.3	800-212-3825
7	-2.1	-3.4	7.2	6.1	252333	Very Low	1	5	16	26	Sysco (3)	Low	IV 98	14.1	III 02	-20.4	800-212-3825
6	-0.5	-2.1	10.2	8.4	233343	Average	1	98	NA	41	Glaxosmithkline (7)	Low	IV 99	24.9	III 02	-21.7	800-212-3825
3	-0.5	-1.7	NA	NA	343322	Very Low	3	65	19	13	Swisscom (1)	Low	IV 98	16.6	III 02	-21.0	800-212-3825
2	-3.6	-3.9	3.1	2.2	515221	Average	5	95	13	30	Samsung (9)	High	IV 99	52.5	III 98	-23.9	800-212-3825
4	5.6	3.7	12.6	10.5	242331	Average	5	95	27	25	GlaxoSmithKline (3)	Very Low	I 98	16.5	III 02	-15.7	800-212-3825
1	1.5	0.1	NA	NA	331125	High	0	NA	12	14	Mellon Funding (2)	Average	IV 98	22.5	III 01	-20.6	800-212-3825
1	0.3	-1	10.4	7.7	532222	High	5	NA	13	14	Pinnacle Health Systems (3)	Average	II 99	18.0	III 01	-19.5	800-212-3825
3	4.3	2.5	NA	NA	551111	Low	2	NA	NA	50	Simon Property Group (7)	Very Low	II 00	12.3	III 02	-10.1	800-212-3825
5	-1	-2.6	9.4	7	551114	Average	0	NA	12	25	Health Net (4)	Average	IV 00	15.6	III 02	-23.3	800-212-3825
8	-2	-2.1	NA	NA	134334	Low	1	19	27	27	General Electric (4)	Average	IV 98	21.1	III 02	-17.5	800-212-3825
4	3.2	2.7	NA	NA	551113	Average	7	8	13	32	Reinsurance Group Amer. (5)	Low	II 01	18.8	III 02	-20.0	800-212-3825
0	1.3	-0.3	6.5	4.6	332332	High	16	3	21	31	Raytheon (2)	Low	IV 99	12.4	III 02	-12.8	800-212-3825
4	-2.3	-4	4.4	2.5	242443	Average	7	4	14	37	DTE Energy (4)	Low	IV 98	10.0	III 02	-16.6	800-212-3825
9	1.9	0.4	9	7.9	342222	Very Low	0	2	18	5	Ball (1)	Low	IV 98	16.5	III 02	-17.7	800-212-3825
8	4.8	4.5	12.2	11.9	441113	Very Low	2	7	NA	42	NVR (7)	Average	IV 01	24.4	III 02	-21.5	800-860-3863
5	5.2	3	12.1	9.6	441112	Average	2	34	NA	15	Federated Dept. Stores (2)	Very Low	IV 98	12.6	III 98	-17.5	800-342-5236
1	5.2	3.3	NA	NA	531111	Average	12	46	NA	14	British American Tobacco (2)	Very Low	IV 99	14.2	III 98	-19.4	800-342-5236
6	4.3	2.1	11.9	9.1	441112	Average	14	7	NA	14	Federated Dept. Stores (2)	Very Low	II 99	13.4	III 98	-17.7	800-342-5236
6	4.5	2.4	12	9.2	441111	Average	20	7	NA	17	Washington Post (2)	Very Low	IV 98	13.3	III 98	-17.0	800-342-5236
9	NA	NA	NA	NA	555	Low	5	39	45	45	Microsoft (13)	Average	IV 99	53.9	III 01	-36.6	800-537-3929
4	-1.3	-2.7	3.8	2.8	324422	Very Low	0	100	20	72	Fuji Photo (10)	Average	IV 99	28.6	III 02	-19.5	800-321-7854
3	4.6	3.4	NA	NA	412333	Very Low	0	99	15	94	Japan Tobacco (22)	Average	IV 99	24.2	III 02	-21.7	800-321-7854
4	5.3	5.2	NA	NA	115422	Very Low	5	9	23	57	Tenet Healthcare (9)	Average	IV 99	33.1	I 01	-17.8	800-321-7854
NA	NA	NA	NA	NA	22	Very Low	2	2	18	9	M&T Bank (1)	Average	IV 01	18.0	III 01	-16.7	800-321-7854
6	-1	-2.4	8.2	6.2	331125	Low	5	9	14	68	Citigroup (13)	Very High	IV 98	34.5	III 02	-31.9	800-366-6264
3	6.9	6.3	13.3	12.3	551111	Low	9	4	19	26	Church & Dwight (2)	Low	IV 01	15.4	III 98	-16.4	800-366-6264
9	-4.5	-6.9	5.3	3.1	443324	High	23	4	18	43	News Corp. (3)	Average	IV 98	23.1	III 98	-26.2	800-366-6264
6	-3.4	-4.8	7.8	5.3	442224	Average	15	6	16	32	Berkshire Hathaway (2)	Average	IV 98	16.4	III 02	-21.3	800-366-6264
6	-0.7	-2.1	7.7	5.9	124444	Low	9	20	28	33	Berkshire Hathaway (6)	High	IV 99	27.2	III 01	-25.2	800-421-0180
6	5.1	3.7	10.6	8.9	123332	Low	7	50	21	19	AOL Time Warner (3)	Low	IV 99	22.2	III 02	-18.3	800-421-0180
7	NA	NA	NA	NA	521	Low	16	76	NA	18	Fomento Economico Mexicano (2)	Average	IV 99	25.2	III 01	-18.3	800-421-0180
3	-4.6	-6.3	6.1	4.1	353333	Average	16	1	18	46	Berkshire Hathaway (5)	Average	IV 98	19.3	III 01	-16.0	800-227-5987
7	-0.4	-1.6	NA	NA	133444	Low	6	21	25	25	Microsoft (4)	Average	IV 98	24.8	III 02	-18.0	800-595-9111
6	10.9	9.7	NA	NA	341111	Average	9	NA	18	25	Burlington Resources (3)	Very Low	IV 98	10.5	III 02	-8.6	800-625-6275
4	1	-0.4	11.4	9.7	452112	Average	7	NA	14	25	Washington Mutual (4)	Low	IV 00	12.8	III 02	-16.6	800-625-6275
5	4.8	3.7	9.8	7.9	521121	Low	4	100	11	33	Ericsson (6)	Average	II 99	21.0	III 02	-22.9	800-625-6275
2	1.1	1	NA	NA	542112	Very Low	22	NA	NA	31	S&P 400 Mid Cap Dep. Recpt. (4)	Low	IV 99	22.9	III 98	-18.7	800-607-2200
6	10.6	8.3	NA	NA	321113	Average	3	5	18	18	Merrill Lynch (3)	Average	IV 98	27.7	III 02	-23.5	800-799-2113
1	-1.9	-2.9	6.1	4.3	342334	High	1	3	16	29	ExxonMobil (6)	Average	IV 98	15.5	III 02	-20.7	800-779-0771
8	6	4.2	11.3	8.6	122333	Low	2	1	23	18	Gilead Sciences (2)	High	IV 98	39.9	III 01	-21.0	800-779-0771
4	4.4	2.4	10.7	8	451112	High	2	1	16	16	M&T Bank (2)	Low	IV 98	16.0	III 02	-17.7	800-779-0771
3	4.4	3.5	NA	NA	551111	Low	3	2	17	15	Olin (2)	Average	IV 01	21.3	III 98	-24.1	800-779-0771
7	2.3	1.3	9.8	7.8	223334	Low	12	6	25	25	Viacom (4)	Average	IV 99	28.9	III 01	-19.9	800-525-7048
4	0.2	-1.8	8.4	6.2	351122	High	2	2	17	29	Fannie Mae (5)	Low	IV 98	9.8	II 02	-12.7	800-525-7048
7	-2.9	-4.1	3.9	2.7	524334	High	18	2	NA	17	Petsmart (4)	Very High	IV 99	59.4	III 01	-23.6	800-525-7048
8	4.9	3.5	11.4	9.2	312334	Low	3	59	24	26	Sanofi-Synthelabo (4)	Average	IV 99	36.4	III 02	-18.2	800-525-7048
7	4.3	3	11	9	313444	Low	4	48	NA	35	National Semiconductor (6)	High	IV 99	32.5	III 02	-25.3	800-525-7048
1	-4.1	-5	5.3	3.4	324334	Average	19	NA	29	51	SLM (7)	High	IV 99	30.2	IV 00	-25.6	800-525-7048
2	-0.5	-1.4	9.6	8.1	233333	High	2	2	23	19	ExxonMobil (3)	Average	IV 98	22.1	III 02	-16.5	800-525-7048
25	2.8	0.8	8.3	5.9	442111	Low	15	NA	24	16	U.S. Treasury Notes (3)	Low	IV 98	11.2	III 01	-11.0	800-525-7048
-5	4.3	3.1	NA	NA	142113	Average	2	3	23	37	Freddie Mac (6)	Low	IV 98	21.3	II 02	-14.9	800-525-7048
7	0.3	-1	9.2	8	442233	Average	11	4	20	65	U.S. Treasury Notes (21)	Low	IV 98	12.6	III 98	-13.0	800-525-7048
58	-1.6	-2.4	8.5	7	451133	Low	6	1	20	41	Freddie Mac (9)	Low	IV 98	13.2	III 02	-18.5	800-525-7048
19	-0.1	-1.1	8.2	6.3	233333	High	6	5	28	34	SLM (6)	Low	IV 98	18.3	III 01	-13.9	800-525-7048
54	5	3.6	8.8	7	232331	Average	14	3	22	27	Amgen (2)	Very Low	IV 98	14.2	III 02	-8.9	800-767-1729
02	-7.4	-8.1	5.2	4.8	415555	Average	10	5	28	32	Apollo Group (4)	Very High	IV 99	64.6	IV 00	-32.6	800-433-0051
55	-3.9	-5.3	4.9	2.6	124555	Average	NA	22	38	38	Lockheed Martin (5)	High	IV 99	38.2	I 01	-23.7	800-927-4648
55	8.3	6	14.1	11.4	341114	High	0	16	15	43	J.C. Penney (6)	Average	IV 01	21.2	III 02	-31.8	800-927-4648
06	1	-0.2	8.9	6.7	212555	Average	6	10	20	28	AmerisourceBergen (4)	High	IV 99	52.7	III 01	-27.2	800-927-4648
69	-7.9	-8.9	2.6	0.4	125554	Average	4	4	26	41	Pfizer (5)	High	IV 99	26.7	III 01	-29.5	800-814-1897
51	3.3	1.6	6.6	4.3	243112	Average	8	4	21	16	Bank America (2)	Very Low	IV 98	13.5	III 02	-9.0	800-243-4361
14	1.1	0.4	9.7	8.1	143333	Low	8	22	20	20	ChevronTexaco (3)	Low	IV 98	22.5	III 02	-18.2	800-821-1239
19	3.2	1.9	10.4	8.4	541112	High	6	19	18	18	Alltel (3)	Low	II 99	13.9	III 98	-21.4	800-821-1239
47	-3.1	-4.4	6.7	4.3	551123	Average	9	19	28	28	Citigroup (4)	Average	IV 98	15.5	III 98	-22.3	800-821-1239
47	2.8	1.6	8	6.7	342221	Low	6	13	19	15	U.S. Treasury Bonds 11/15/96 (3)	Very Low	IV 98	12.2	III 02	-9.7	800-638-5660
44	-0.5	-0.8	NA	NA	133444	Low	6	20	29	29	Pfizer (4)	Average	IV 98	24.7	I 01	-17.2	800-638-5660
91	8.9	6.7	11.8	9.3	441111	Low	11										

Data: Standard & Poor's

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 2001-2002	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	2002 RETU PRE- TAX	AFTER TAX
T. ROWE PRICE EQUITY INDEX S00	C	Large-cap Blend	C	2864.5	-16	No load *	0.35	-22.2	-22
T. ROWE PRICE EQUITY INCOME	B	Large-cap Value	B+	9382.8	-6	No load	0.80	-13.0	-13
T. ROWE PRICE EUROPEAN STOCK	C	Europe	C	672.4	-20	No load	1.11	-18.7	-18
T. ROWE PRICE GROWTH STOCK	B	Large-cap Growth	B+	3941.1	-15	No load	0.77	-23.0	-23
T. ROWE PRICE GROWTH AND INCOME	C	Large-cap Value	C	1782.3	-25	No load	0.81	-23.8	-24
T. ROWE PRICE HEALTH SCIENCES	A	Health	C	710.9	-24	No load	1.02	-27.7	-27
T. ROWE PRICE INTL. STOCK	C-	Foreign	C	4750.8	-28	No load	0.92	-18.2	-18
T. ROWE PRICE MID-CAP GROWTH	B+	Mid-cap Growth	B+	5974.5	-6	No load	0.89	-21.2	-21
T. ROWE PRICE MID-CAP VALUE	A	Mid-cap Value	B+	1011.0	130	No load	0.98	-7.4	-7
T. ROWE PRICE NEW AMERICA GROWTH	D	Large-cap Growth	C-	812.2	-30	No load	0.99	-28.5	-28
T. ROWE PRICE NEW ASIA	C	Pacific/Asia ex-Japan	B	597.8	0	No load	1.17	-9.4	-9
T. ROWE PRICE NEW ERA	B+	Natural Resources	C	984.0	-4	No load	0.72	-6.3	-6
T. ROWE PRICE NEW HORIZONS	C	Small-cap Growth	C	3616.4	-31	No load	0.91	-26.6	-26
T. ROWE PRICE PERSONAL STRATEGY BALANCED	B	Domestic Hybrid	B	673.2	3	No load	1.02	-7.7	-8
T. ROWE PRICE SCIENCE & TECHNOLOGY	F	Technology	C-	3306.7	-37	No load	1.00	-40.6	-40
T. ROWE PRICE SMALL CAP STOCK	B+	Small-cap Blend	B	3407.6	19	No load	0.98	-14.2	-14
T. ROWE PRICE SMALL CAP VALUE	B+	Small-cap Value	B	2434.8	30	No load *	0.89	-1.8	-2
T. ROWE PRICE SPECTRUM GROWTH	C	All Cap	C	1840.1	-20	No load	0.87	-20.9	-20
T. ROWE PRICE VALUE	B	Mid-cap Value	C	1199.4	-6	No load	0.94	-16.6	-16
PRUDENTIAL EQUITY A	C-	Large-cap Value	D	1238.7	-27	5.00	0.93 †	-22.9	-23
PRUDENTIAL JENNISON GROWTH A	C-	Large-cap Growth	C	1053.1	-31	5.00 **	1.08 †	-31.2	-31
PRUDENTIAL STOCK INDEX I	C	Large-cap Blend	B	1126.3	-16	No load	0.30	-22.2	-22
PRUDENTIAL UTILITY A	C-	Utilities	C	1924.9	-35	5.00	0.80 †	-26.0	-26
PRUDENTIAL VALUE A	C-	Large-cap Value	C-	551.4	-24	5.00	1.08 †	-21.9	-22
PUTNAM ASSET ALLOCATION BALANCED A	C	Domestic Hybrid	C-	1127.6	-15	5.75 **	1.15 †	-12.3	-13
PUTNAM ASSET ALLOCATION CONSERVATIVE A	B	Domestic Hybrid	C	580.9	-4	5.75 **	1.33 †	-3.4	-5
PUTNAM ASSET ALLOCATION GROWTH A	C	Domestic Hybrid	D	618.3	-16	5.75 **	1.30 †	-14.8	-15
PUTNAM CAPITAL APPRECIATION A	D	All Cap	D	532.4	-30	5.75 **	1.08 †	-23.8	-23
PUTNAM CLASSIC EQUITY A	C-	Large-cap Value	D	931.2	-20	5.75 **	0.97 †	-19.9	-20
PUTNAM EQUITY INCOME A	B	Large-cap Value	B	1395.2	12	5.75 **	0.97 †	-12.9	-13
PUTNAM FUND FOR GROWTH AND INCOME A	C-	Large-cap Value	C-	14937.2	-20	5.75 **	0.82 †	-19.1	-19
PUTNAM GLOBAL EQUITY A (ai)	D	World	D	2485.0	-20	5.75 **	1.15 †	-22.5	-22
PUTNAM GROWTH OPPORTUNITIES A	D	Large-cap Growth	D	1087.8	-42	5.75 **	1.12 †	-30.1	-30
PUTNAM HEALTH SCIENCES A	C	Health	C-	2347.2	-31	5.75 **	1.00 †	-20.4	-20
PUTNAM INTERNATIONAL GROWTH A	B	Foreign	B+	6462.8	1	5.75 **	1.16 †	-17.0	-17
PUTNAM INTERNATIONAL NEW OPPORTUNITIES A	C-	Foreign	C	515.6	-29	5.75 **	1.60 †	-14.1	-14
PUTNAM INTERNATIONAL VOYAGER A	B+	Foreign	A	697.7	-11	5.75 **	1.54 †	-14.0	-14
PUTNAM INVESTORS A	D	Large-cap Growth	C-	3222.9	-37	5.75 **	0.98 †	-23.8	-23
PUTNAM NEW OPPORTUNITIES A	D	Large-cap Growth	D	6782.1	-36	5.75 **	0.98 †	-30.6	-30
PUTNAM NEW VALUE A	B	Large-cap Value	B	627.9	3	5.75 **	1.09 †	-15.7	-15
PUTNAM OTC EMERGING GROWTH A	F	Mid-cap Growth	F	1133.7	-38	5.75 **	1.24 †	-32.8	-32
PUTNAM RESEARCH A	C	Large-cap Blend	C	886.1	-19	5.75 **	1.04 †	-22.2	-22
PUTNAM VISTA A	D	Mid-cap Growth	C-	2490.0	-38	5.75 **	1.00 †	-30.7	-30
PUTNAM VOYAGER A	C-	Large-cap Growth	C	11877.1	-26	5.75 **	0.96 †	-26.5	-26
PUTNAM VOYAGER II A	D	Large-cap Growth	D	872.3	-12	5.75 **	1.10 †	-29.2	-29
ROYCE LOW PRICED STOCK	A	Small-cap Value	A	1843.0	116	No load *	2.02 †	-16.3	-16
ROYCE OPPORTUNITY INV.	A	Small-cap Value	A	680.1	29	No load *	1.19	-17.0	-17
ROYCE PREMIER	A	Small-cap Value	B+	873.5	17	No load *	1.19	-7.8	-8
ROYCE TOTAL RETURN	A	Small-cap Value	B+	1051.3	126	No load *	1.24	-1.6	-1
RS DIVERSIFIED GROWTH A	B+	Small-cap Growth	B+	620.1	-13	No load	1.52 †	-39.1	-39
RS EMERGING GROWTH A	B	Small-cap Growth	B	1394.6	-43	No load	1.37 †	-40.2	-40
F. RUSSELL DIVERSIFIED EQUITY S	C-	Large-cap Blend	C-	1032.8	-14	No load	0.99	-22.3	-22
F. RUSSELL INSTL. EQUITY 1/I	C-	Large-cap Blend	C-	619.8	-28	No load	0.71	-22.1	-22
F. RUSSELL INSTL. EQUITY Q/I	C	Large-cap Blend	B	901.9	-15	No load	0.70	-22.6	-22
F. RUSSELL INSTL. INTERNATIONAL I	C-	Foreign	C	553.9	-18	No load	1.06	-15.7	-16
F. RUSSELL INTERNATIONAL SECURITIES S	C-	Foreign	C	814.9	-3	No load	1.42	-15.9	-16
F. RUSSELL QUANTITATIVE EQUITY S	C	Large-cap Blend	B	1143.4	-11	No load	0.98	-23.1	-23
F. RUSSELL REAL ESTATE SECURITIES S	B+	Real Estate	B	623.8	-2	No load	1.17	3.3	1
F. RUSSELL SPECIAL GROWTH S	B	Mid-cap Blend	C-	555.0	-15	No load	1.21	-19.2	-19
RYDEX OTC INV.	C	Large-cap Growth	C	566.6	-43	No load	1.08	-38.6	-38
SAFECO EQUITY INV. (aj)	C-	Large-cap Value	D	715.8	-34	No load	0.94	-26.3	-26
SALOMON BROTHERS INVESTORS VALUE O	B	Large-cap Value	B+	540.0	-18	No load	0.74	-21.6	-21
SCHWAB 1000 INVESTOR	C	Large-cap Blend	B	3407.9	-17	No load *	0.46	-21.2	-21
SCHWAB CAPITAL S&P 500 SELECT	C	Large-cap Blend	B	3194.4	-18	No load *	0.19	-22.2	-22
SCHWAB CAPITAL SMALL CAP INDEX INV.	C	Small-cap Blend	C-	768.7	-12	No load *	0.49	-22.5	-22
SCHWAB INTERNATIONAL INDEX SELECT	C-	Foreign	C	557.5	-13	No load *	0.47	-15.6	-16
SCHWAB MARKETTRACK GROWTH	C	Domestic Hybrid	C-	533.2	-1	No load	0.50	-15.5	-15
SCUDDER CAPITAL GROWTH AARP	C-	Large-cap Growth	C	927.5	-36	No load	0.88	-29.4	-29
SCUDDER DREMAN HIGH RETURN A	B	Large-cap Value	B	2056.7	-2	5.75 **	1.27 †	-18.5	-18
SCUDDER EQUITY 500 INDEX PREMIER (ak)	C	Large-cap Blend	B	1402.6	-1	No load	0.10	-22.1	-22

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. NA=Not available.

(ai) Formerly Putnam Global Growth Fd/A. (aj) Formerly SAFECO Equity Fund. (ak) Formerly Deutsche Equity 500 Index/Premier.

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)				HISTORY		PORTFOLIO DATA					RISK				TELEPHONE	
5 YEARS		10 YEARS		RESULTS VS.		TURNOVER	CASH %	UNTAXED GAINS %	P/E RATIO	TOP 10 STKS. %	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST	
PRETAX	AFTERTAX	PRETAX	AFTERTAX	ALL FUNDS									QTR	% RET	QTR	% RET
-0.8	-1.2	9	8.3	134333	Low	0	4	19	24	General Electric (3)	Average	IV 98	21.3	III 02	-17.2	800-638-5660
2.5	0.7	10.9	8.7	451112	Low	5	3	17	22	Merck (2)	Low	II 99	13.3	III 02	-17.3	800-638-5660
-1.9	-3.2	8	6.8	233443	Very Low	2	98	17	31	Total Fina (5)	Average	IV 99	20.5	III 02	-22.9	800-638-5660
1.6	-0.4	9.8	7.5	133334	Average	3	13	20	29	Citigroup (4)	Average	IV 98	23.1	III 02	-15.2	800-638-5660
-1.5	-3	7.8	6.1	452224	Average	2	8	19	24	Citigroup (3)	Average	IV 98	12.0	III 02	-17.9	800-638-5660
6.4	5.4	NA	NA	241124	Average	3	3	24	45	UnitedHealth Group (6)	Average	II 01	21.4	I 01	-25.4	800-638-5660
-3.7	-4.7	4.3	3.2	325443	Low	2	97	18	25	Glaxosmithkline (5)	Average	IV 99	24.7	III 02	-21.6	800-638-5660
4.8	4.2	12.8	12.1	232223	Very Low	7	4	22	22	Affiliated Comp. Services (2)	Average	IV 98	26.8	III 02	-18.9	800-638-5660
6.4	5.2	NA	NA	451111	Average	4	4	21	25	Safeco (3)	Low	IV 01	17.3	III 02	-17.3	800-638-5660
-5.6	-7.1	5.5	4	244335	Average	3	3	22	25	Microsoft (3)	High	IV 98	27.7	III 01	-21.8	800-638-5660
0.1	-0.1	0.7	0.1	515311	Average	4	97	11	30	Samsung (8)	High	IV 99	42.0	II 98	-24.6	800-638-5660
3.3	1.6	9.1	7	531121	Low	2	13	21	28	Wal-Mart (4)	Average	II 99	15.0	III 02	-17.2	800-638-5660
-0.3	-1.5	9.2	7.1	423224	Very Low	1	3	25	20	Apollo Group (4)	High	IV 01	30.2	III 01	-25.2	800-638-5660
3.2	1.9	NA	NA	342221	High	4	27	15	12	Fannie Mae 6% (1)	Very Low	IV 98	11.2	III 02	-9.7	800-638-5660
-8	-9.3	5.5	3.4	115555	Average	4	7	NA	42	Microsoft (9)	Very High	IV 98	47.9	III 01	-40.3	800-638-5660
3.4	2.6	11.3	9.5	541112	Low	8	2	23	20	Harman Intl. (2)	Average	IV 01	19.3	III 98	-19.4	800-638-5660
4.9	3.6	12.3	10.7	551111	Very Low	5	3	17	19	Brown & Brown (2)	Low	II 99	16.7	III 98	-20.2	800-638-5660
0.1	-1.4	8.5	6.5	333223	Very Low	NA	NA	NA	100	T. Rowe Price Intl. Funds (23)	Average	IV 98	18.6	III 02	-18.4	800-638-5660
2.7	1.4	NA	NA	441112	Low	3	4	22	19	Merck (3)	Low	II 99	15.0	III 02	-18.7	800-638-5660
-2.9	-4.7	7.7	5.5	442234	Very High	7	20	20	20	Microsoft (3)	Average	II 99	15.1	III 02	-17.9	800-225-1852
-2.1	-2.8	NA	NA	125445	Average	10	25	29	29	Microsoft (4)	High	IV 98	30.1	III 01	-20.0	800-225-1852
-0.7	-1.1	NA	NA	134344	Low	4	19	24	24	General Electric (3)	Average	IV 98	21.3	III 02	-17.3	800-225-1852
-1.2	-3.4	7	4.6	451444	Average	4	NA	35	35	AT&T (5)	Average	III 00	19.0	III 02	-19.8	800-225-1852
-1.1	-2.8	8.8	6.6	541123	Very High	10	17	19	19	Citigroup (3)	Average	II 99	14.1	III 02	-20.5	800-225-1852
1.1	-0.5	NA	NA	333222	High	20	10	16	63	Long Gilt Future-Liffe (4)	Low	IV 98	15.0	III 02	-12.0	800-225-1581
2.8	0.8	NA	NA	443221	High	29	1	NA	61	Long Gilt Future-Liffe (3)	Very Low	IV 98	8.8	III 02	-6.3	800-225-1581
-0.3	-2.1	NA	NA	334322	Average	38	NA	59	59	MBNA (1)	Low	IV 98	19.3	III 02	-17.7	800-225-1581
-5	-5.9	NA	NA	433444	Average	2	6	18	30	AutoZone (4)	High	IV 99	23.9	III 01	-19.1	800-225-1581
-2.5	-3.5	NA	NA	352223	High	2	9	15	29	ExxonMobil (4)	Average	IV 98	17.0	III 02	-17.6	800-225-1581
2	0.6	10.4	9	351122	Average	3	8	14	23	ExxonMobil (4)	Low	IV 98	13.9	III 02	-17.2	800-225-1581
-1	-2.2	8.4	6.4	352223	Average	0	4	18	25	Citigroup (4)	Low	IV 98	16.7	III 02	-18.6	800-225-1581
-4.1	-5.3	4.9	3.1	115544	Very High	0	43	17	24	Total Fina (3)	High	IV 99	47.8	I 01	-25.1	800-225-1581
-5	-5	NA	NA	125555	Average	2	5	23	47	General Electric (8)	High	IV 99	36.1	I 01	-27.5	800-225-1581
1.7	1	10.6	9.6	151443	Average	6	25	22	48	Johnson & Johnson (8)	Low	IV 98	16.5	I 01	-22.5	800-225-1581
3	2.2	10	9.2	214442	Low	3	100	NA	31	Total Fina (5)	Average	IV 99	35.7	III 02	-20.7	800-225-1581
-1.9	-2.9	NA	NA	315552	High	100	NA	26	26	Statoil (3)	High	IV 99	58.9	I 01	-22.4	800-225-1581
6.2	5.8	NA	NA	114552	Average	5	100	NA	19	Parmalat (2)	Average	IV 99	50.3	III 01	-24.4	800-225-1581
-3.8	-4	7.8	5.9	125554	High	1	5	15	26	Microsoft (4)	High	IV 98	25.3	I 01	-20.3	800-225-1581
-5.4	-6.4	7.5	6.8	215555	Average	1	9	23	15	AutoZone (2)	Very High	IV 99	50.0	III 01	-29.3	800-225-1581
2.3	1.1	NA	NA	451112	Average	0	10	12	29	Tyco (4)	Low	IV 98	16.4	III 02	-19.1	800-225-1581
-15	-16.1	0.8	-0.9	315555	Low	1	9	23	20	Career Education (3)	Very High	IV 99	81.3	I 01	-43.2	800-225-1581
0.4	-0.2	NA	NA	133444	Very High	-3	11	14	30	Citigroup (5)	Average	IV 98	23.8	I 01	-20.2	800-225-1581
-4.2	-5.8	6.7	4.9	213555	Average	1	6	23	16	AmerisourceBergen (2)	Very High	IV 99	42.1	III 01	-32.2	800-225-1581
-1.7	-2.9	8.1	6.6	214444	Average	7	5	21	30	General Electric (5)	High	IV 99	40.2	I 01	-19.1	800-225-1581
-5.8	-6.4	NA	NA	215555	Average	0	9	25	18	Westwood One (3)	Very High	IV 99	54.6	III 01	-32.2	800-225-1581
11.5	10.7	NA	NA	421112	Low	6	10	17	13	Perrigo (2)	Average	IV 01	27.7	III 98	-21.5	800-348-1414
10.1	9	NA	NA	421112	Average	3	6	16	11	Allen Telecom (1)	Average	II 99	31.2	III 02	-27.8	800-348-1414
7.1	6	11.1	9.7	441111	Average	7	8	22	33	Florida Rock Inds. (4)	Low	II 99	21.0	III 01	-14.8	800-348-1414
7.5	6.2	NA	NA	451111	Low	6	17	14	14	U.S. Treasury Notes (2)	Very Low	IV 01	15.2	III 01	-12.6	800-348-1414
5.7	4.6	NA	NA	315115	Very High	3	3	20	23	Coinstar (3)	Very High	IV 99	62.9	III 01	-29.4	800-766-3863
3.4	2.8	9	7	115555	High	15	8	27	33	Sunrise Assisted Living (3)	Very High	IV 99	75.2	III 01	-31.3	800-766-3863
-2.7	-3.6	7.7	5.3	234444	High	5	4	19	22	Pfizer (3)	Average	IV 98	22.5	III 02	-16.7	800-426-7969
-2.4	-3.4	8.3	5.6	234443	High	5	4	19	21	Pfizer (3)	Average	IV 98	22.5	III 02	-16.8	800-426-7969
-0.2	-1.7	9.9	7.3	233334	High	4	4	17	26	General Electric (4)	Average	IV 98	23.0	III 02	-17.2	800-426-7969
-2.9	-3.7	4	2.5	324442	High	9	90	NA	19	Canon (2)	Average	IV 99	18.8	III 02	-20.5	800-426-7969
-3.1	-3.8	3.6	2.3	324442	Average	10	88	NA	20	Canon (2)	Average	IV 99	20.3	III 02	-20.5	800-426-7969
-0.7	-1.9	9.4	7	233334	High	4	4	17	26	General Electric (4)	Average	IV 98	22.6	III 02	-17.4	800-426-7969
4	2.2	10.7	8.3	551111	Average	5	1	19	43	Simon Property (6)	Low	III 00	10.3	III 98	-10.3	800-426-7969
1	-0.2	8.7	6.4	432223	High	6	4	17	10	First American (1)	Average	IV 01	19.7	III 98	-22.0	800-426-7969
-1.4	-1.5	NA	NA	115555	Average	1	1	47	44	Microsoft (13)	Very High	IV 99	53.0	III 01	-36.8	800-820-0888
-4.1	-4.8	8.5	6.8	244334	Low	4	4	20	31	Pfizer (4)	Average	IV 98	18.7	III 02	-18.4	800-528-6501
2.2	0.2	11	7.9	341123	Average	4	6	19	22	Verizon (2)	Average	IV 98	17.4	III 02	-20.2	800-446-1013
-0.5	-0.7	8.9	8.5	134333	Low	0	3	19	21	General Electric (3)	Average	IV 98	21.9	III 02	-16.6	800-266-5623
-0.7	-1.1	NA	NA	134333	Low	0	4	19	24	General Electric (3)	Average	IV 98	21.2	III 02	-17.3	800-435-4000
-0.9	-1.9	NA	NA	532224	Average	2	16	3	3	Petsmart (0)	High	IV 01	19.6	III 98	-20.9	800-435-4000
-3.5	-4	NA	NA	325552	Low	100	NA	21	21	BP Amoco (4)	Average	IV 99	20.0	III 02	-19.7	800-266-5623
0.3	-0.4	NA	NA	333332	Very Low	NA	NA	87	87	Schwab S&P 500 (25)	Low	IV 98	15.7	III 02	-14.2	800-266-5623
-3.3	-4.5	6.5	4.9	224445	Very Low	9	23	34	34	Microsoft (4)	High	IV 98	25.8	III 01	-20.6	800-621-1048
2.5	1.3	11.8	10.6	351113	Low	0	8	11	53	Philip Morris (10)	Low	III 00	22.8	III 02	-17.6	800-621-1048
-0.7	-1.6	9.3	8.2	134333	Low	1	4	19	23	General Electric (3)	Average	IV 98	21.4	III 02	-17.3	800-621-1048

Data: Standard & Poor's

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	RATING	SIZE		FEES		2002 R PRE-TAX
				ASSETS \$MIL.	% CHG. 2001-2002	SALES CHARGE (%)	EXPENSE RATIO (%)	
SCUDDER GLOBAL S	C	World	C	705.2	-30	No load	1.35	-17.0
SCUDDER GROWTH & INCOME AARP		Large-cap Value		2556.6	-30	No load	0.76	-23.5
SCUDDER GROWTH A	F	Large-cap Growth	D	869.6	-37	5.75 **	1.00 †	-29.8
SCUDDER INTERNATIONAL S	C	Foreign	B	1723.8	-38	No load	1.06	-16.4
SCUDDER LARGE COMPANY VALUE S	C	Large-cap Value	C	1536.7	-29	No load	0.89	-16.6
SCUDDER TECHNOLOGY A	C-	Technology	C	1039.9	-39	5.75 **	1.03	-38.9
SCUDDER TOTAL RETURN A	C	Domestic Hybrid	D	1818.4	-24	5.75 **	1.00	-15.7
SEI EMERGING MARKETS EQUITY	D	Diversified Emerging Markets	C-	828.2	-29	No load	1.95	-8.0
SEI INTERNATIONAL EQUITY A	C-	Foreign	C	2200.3	-13	No load	1.28	-17.0
SELECT SECTOR SPDR. FINANCIAL		Financial		893.3	0	No load	0.27 †	-14.9
SELECT SECTOR SPDR. TECHNOLOGY		Technology		1103.9	-14	No load	0.28 †	-38.4
SELECTED AMERICAN SHARES	B	Large-cap Value	B+	4569.1	-16	No load	0.92 †	-17.1
SELIGMAN COMMUNICATIONS & INFORMATION A	C-	Communications	B	2105.6	-39	4.75 **	1.44 †	-36.8
SENTINEL COMMON STOCK A		Large-cap Value		888.7	-21	5.00 **	1.06 †	-17.0
SEQUOIA	A	Large-cap Value	A	3989.9	-2	No load	1.00	-2.6
SMALLCAP WORLD A	C-	World	C-	6543.0	-22	5.75 **	1.17 †	-22.3
SMITH BARNEY AGGRESSIVE GROWTH A	A	Large-cap Growth	A	1854.5	-12	5.00 **	1.21 †	-32.5
SMITH BARNEY APPRECIATION A	C	Large-cap Blend	B+	2602.3	-16	5.00 **	0.92 †	-17.0
SMITH BARNEY FUNDAMENTAL VALUE A	B	Large-cap Value	B+	1405.0	-9	5.00 **	1.05 †	-26.5
SMITH BARNEY GROWTH AND INCOME 1	D	Large-cap Blend	D	522.1	-28	8.50	0.73	-22.8
SMITH BARNEY LARGE CAP CORE 1	C	Large-cap Growth	C	2387.2	-29	8.50	0.73	-26.3
SMITH BARNEY LARGE CAP GROWTH B	B	Large-cap Growth	A	981.4	-32	No load *	1.89 †	-26.1
SMITH BARNEY PREMIUM TOTAL RETURN A	C-	Domestic Hybrid	F	738.0	-15	5.00 **	1.08 †	-13.2
SOUND SHORE	B	Large-cap Value	B	789.2	-25	No load	0.98	-15.4
SSGA S&P 500 INDEX	C	Large-cap Blend	C	1707.6	-24	No load	0.16 †	-22.3
STANDARD & POOR'S DEPOSITARY RCPT.	C	Large-cap Blend	C	43797.1	56	No load	0.11	-22.5
STANDARD & POOR'S MIDCAP 400 DEPOSITARY RCPT.	B+	Mid-cap Blend	B	5177.2	11	No load	0.26	-14.7
STATE FARM BALANCED	B	Domestic Hybrid	C	824.7	-7	No load	0.13	-7.7
STATE FARM GROWTH	C	Large-cap Blend	B+	2227.7	-12	No load	0.13	-16.1
STATE STREET RESEARCH AURORA A	B+	Small-cap Value	B	1584.8	2	5.75 **	1.47 †	-19.8
STATE STREET RESEARCH INVESTMENT TRUST S	C-	Large-cap Blend	D	525.1	-30	No load	0.81	-26.9
STI CLASSIC CAPITAL APPRECIATION TRUST	B	Large-cap Blend	B+	1049.8	-8	No load	1.22	-22.0
STRONG ADVISOR COMMON STOCK Z	B	Mid-cap Blend	C	1476.4	-9	No load	1.30	-19.3
STRONG ADVISOR SMALL CAP VALUE Z	A	Small-cap Value	A	658.3	31	No load	1.40	-6.1
STRONG GROWTH & INCOME INV.	C	Large-cap Blend	B	630.2	-28	No load	1.30	-21.8
STRONG GROWTH INV.	C	Large-cap Growth	B	1387.9	-32	No load	1.40	-25.3
STRONG LARGE CAP GROWTH	C-	Large-cap Growth	C	656.8	-34	No load	1.10	-29.9
STRONG OPPORTUNITY INV.	B	Mid-cap Blend	C	2758.2	-22	No load	1.30	-27.0
TCW GALILEO SELECT EQUITY I	B	Large-cap Growth	B+	1125.5	15	No load	0.87	-30.4
TEMPLETON DEVELOPING MARKETS A	D	Diversified Emerging Markets	C	1226.8	3	5.75 **	2.21 †	1.7
TEMPLETON FOREIGN A	C	Foreign	B	8468.0	-2	5.75 **	1.16 †	-8.6
TEMPLETON GLOBAL SMALLER COMPANIES A	D	World	D	540.0	-9	5.75 **	1.44 †	-8.8
TEMPLETON GROWTH A	B	World	B	11584.3	-3	5.75 **	1.10 †	-9.5
TEMPLETON INSTL. EMERGING MARKETS	C-	Diversified Emerging Markets	B	1271.6	5	No load	1.45	2.0
TEMPLETON INSTL. FOREIGN EQUITY PRIM.	C	Foreign	B	3318.9	-7	No load	0.84	-14.8
TEMPLETON WORLD A	C	World	B	6147.1	-12	5.75 **	1.08 †	-12.1
THIRD AVENUE VALUE	B+	Small-cap Value	B	2347.7	-7	No load	1.07	-15.2
THOMPSON PLUMB GROWTH	A	Large-cap Blend	A	520.6	95	No load	1.20	-20.4
THORNBURG VALUE A	B	Large-cap Blend	B+	864.1	-27	4.50 **	1.40 †	-24.9
TIAA-CREF GROWTH & INCOME	C	Large-cap Blend	B	530.8	-16	No load	0.43	-23.9
TORRAY	B	Large-cap Value	B+	1454.4	-10	No load	1.07	-13.0
TURNER MID CAP GROWTH	B+	Mid-cap Growth	B+	652.4	-10	No load	1.05	-32.9
TWEEDY BROWNE AMERICAN VALUE	B	Large-cap Value	B+	740.8	-19	No load	1.36	-14.9
TWEEDY BROWNE GLOBAL VALUE	B+	World	A	4237.1	8	No load	1.37	-12.1
UBS TACTICAL ALLOCATION A (al)	C	Domestic Hybrid	D	666.5	-30	5.50 **	0.89 †	-22.9
USAA AGGRESSIVE GROWTH	C-	Large-cap Growth	C	715.9	-29	No load	0.99	-30.6
USAA CORNERSTONE STRATEGY	C	International Hybrid	C-	1088.9	15	No load	1.16	-8.3
USAA GROWTH	F	Large-cap Growth	D	721.6	-34	No load	1.00	-31.8
USAA GROWTH & INCOME	C	Large-cap Value	C	866.5	-18	No load	1.05	-21.3
USAA INCOME STOCK	C	Large-cap Value	C	1508.4	-18	No load	0.82	-19.0
USAA S&P 500 INDEX MEMBER SHARES (am)	C	Large-cap Blend	B	1509.4	-48	No load	1.19	-22.2
VAN KAMPEN AGGRESSIVE GROWTH A	C	Mid-cap Growth	C	649.6	-16	5.75 **	1.43 †	-33.9
VAN KAMPEN COMSTOCK A	B+	Large-cap Value	B+	4371.1	20	5.75 **	0.87 †	-19.6
VAN KAMPEN EMERGING GROWTH A	C	Large-cap Growth	B+	4142.8	-31	5.75 **	1.06 †	-33.2
VAN KAMPEN ENTERPRISE A	D	Large-cap Growth	D	1247.8	-29	5.75 **	1.05 †	-29.6
VAN KAMPEN EQUITY AND INCOME A (an)	B+	Domestic Hybrid	A	2792.8	29	5.75 **	0.82 †	-8.3
VAN KAMPEN GROWTH & INCOME A	B+	Large-cap Value	B+	2067.6	21	5.75 **	0.82 †	-14.7
VAN KAMPEN PACE A	D	Large-cap Blend	D	1568.7	-30	5.75 **	0.92 †	-25.4
VANGUARD 500 INDEX INV.	C	Large-cap Blend	B	59672.1	-18	No load	0.18	-22.1
VANGUARD ASSET ALLOCATION INV.	B	Domestic Hybrid	C	6870.8	-13	No load	0.42	-15.4

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. NA=Not available.

(al) Formerly Brinson Tactical Allocation Fund/A. (am) Formerly USAA S&P 500 Index Fund. (an) Formerly Van Kampen Equity Income/A.

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)				HISTORY	PORTFOLIO DATA					RISK					TELEPHONE	
5 YEARS PRETAX AFTERTAX		10 YEARS PRETAX AFTERTAX		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	UNTAXED GAINS %	P/E RATIO	TOP 10 STKS. %	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST QTR % RET		WORST QTR % RET		
-1.3	-2.9	6.6	4.8	333342	Low	7	59	NA	26	U.K. Treas. Notes (4)	Low	IV 99	15.2	III 02	-17.4	800-621-1048
NA	NA	NA	NA	34	Average	1	5	18	32	Bank America(4)		IV 01	10.5	III 02	-16.8	800-621-1048
-7.5	-8.3	1.5	-0.6	325555	Low	2	9	23	36	Microsoft (6)	High	IV 99	29.1	III 98	-22.2	800-621-1048
-1.4	-2.7	5.5	4	215552	Average		94	NA	30	Scudder QP Trust (4)	Average	IV 99	31.3	III 02	-19.4	800-621-1048
-0.8	-2.3	8	5.8	451132	Average	3	2	16	33	ExxonMobil (5)	Low	IV 98	16.0	III 02	-19.4	800-621-1048
-1.4	-2.5	7.9	5.2	115555	Average	3	5	30	49	Microsoft (11)	Very High	IV 99	57.8	III 01	-34.8	800-621-1048
0.3	-1.2	6	3.6	343222	High	2	6	22	23	U.S. Treasury Notes 8/15/97 (3)	Low	IV 98	12.0	II 02	-10.0	800-621-1048
-7.4	-7.4	NA	NA	515521	Average	4	89	NA	24	Samsung (6)	High	IV 99	31.3	III 98	-27.5	800-342-5734
-2.5	-3.1	2.4	1.2	225552	Average	1	99	27	19	Glaxosmithkline (3)	Average	IV 99	20.9	III 02	-20.4	800-342-5734
NA	NA	NA	NA	51132	Very Low	0	1	16	49	Citigroup (11)		III 00	23.6	III 02	-17.1	800-843-2639
NA	NA	NA	NA	15555	Very Low	0	0	35	66	Microsoft (18)		IV 99	31.5	IV 00	-32.6	800-843-2639
2.4	1.6	11	9.2	332322	Low	6	9	19	44	American Express (7)	Low	IV 98	22.2	III 98	-14.8	800-243-1575
-0.9	-2.1	13.2	10.6	115115	Average	8	5	29	48	Synopsys (9)	Very High	IV 98	45.1	III 01	-31.0	800-221-7844
-0.6	-2.4	8.1	5.7	352322	Average	9	8	20	30	Berkshire Hathaway (3)	Low	IV 98	16.5	III 02	-16.2	800-282-3863
7.8	6.3	15.2	13.6	151111	Very Low		NA	NA	97	Bershire Hathaway (31)	Low	IV 98	20.3	III 99	-14.4	800-686-6884
-2.5	-3.4	6.2	4.5	414444	Average	8	40	25	14	Michaels Stores (2)	High	IV 99	34.6	III 01	-25.2	800-421-0180
11.1	10.9	13.7	13	111125	Very Low	6	11	33	51	Forest Labs (7)	High	IV 98	37.6	II 02	-25.5	800-451-2010
1.1	-0.1	8.3	6.3	243222	Average	11	8	22	37	Berkshire Hathaway (7)	Low	IV 98	17.9	III 02	-13.3	800-451-2010
4	3.1	10	8.4	321124	Average	6	12	20	22	ChevronTexaco (2)	Average	IV 98	18.5	III 02	-21.8	800-451-2010
-2.8	-4	6.3	3.7	244344	Average	2	6	22	27	Microsoft (4)	Average	IV 98	19.5	III 02	-18.3	800-451-2010
-0.3	-1.3	7.8	5.6	123344	Low	5	8	22	32	Microsoft (5)	Average	IV 98	23.6	III 02	-16.7	800-451-2010
3.1	3	NA	NA	124344	Very Low	0	4	28	48	Berkshire Hathaway (6)	High	IV 98	37.5	II 02	-18.7	800-451-2010
-1.6	-4	7	4.4	453222	Average	7	7	17	24	Safeway (2)	Low	IV 02	11.0	III 02	-11.8	800-451-2010
1	0.3	10.8	9.2	451122	High	6	7	13	34	Berkshire Hathaway (5)	Low	IV 98	15.8	III 02	-16.4	800-551-1980
-0.8	-1.9	9.1	7.7	134344	Low		NA	18	24	Microsoft (4)	Average	IV 98	21.3	III 02	-17.4	800-647-7327
-0.8	-1.1	NA	NA	134344	Low	0	1	21	24	General Electric (3)	Average	IV 98	21.2	III 02	-17.2	800-843-2639
6	5.6	NA	NA	241122	Low		1	21	8	M&T Bank (1)	Average	IV 98	28.0	III 01	-16.6	800-843-2639
1.5	0.5	7.3	6	343221	Very Low	2	6	21	23	Pfizer (4)	Very Low	IV 98	12.1	III 02	-7.1	800-447-0740
0.2	-0.3	8	7.1	233332	Low	1	11	21	39	Johnson & Johnson (7)	Low	IV 98	19.8	III 02	-13.9	800-447-0740
7.6	7.2	NA	NA	521113	Average	14	11	20	15	Readers Digest (2)	Low	II 99	22.4	III 02	-23.8	800-531-0131
-3.8	-4.5	6.2	4.1	134444	High	6	7	17	29	Microsoft (3)	Average	IV 98	20.6	III 01	-17.9	800-531-0131
0.8	-0.7	8.2	5.9	142223	High	3	5	21	28	Lockheed Martin (4)	Low	IV 98	22.9	III 01	-15.0	800-874-4770
3.2	1.6	11.2	8.6	423223	High	16	3	18	30	Apache (2)	Average	IV 99	25.3	III 01	-20.1	800-368-3863
13.7	13.7	NA	NA	431111	Average	9	8	19	29	Harmony Gold (3)	Average	II 99	25.8	III 98	-24.6	800-368-3863
-0.3	-0.3	NA	NA	124443	Very High	6	3	20	29	Microsoft (3)	Average	IV 98	23.4	I 01	-17.8	800-368-3863
-0.2	-1.4	NA	NA	114454	Very High	6	6	27	25	Forest Labs (3)	High	IV 99	54.9	I 01	-27.4	800-368-3863
-2.7	-4	6.6	4.5	114455	Very High	10	6	24	34	Microsoft (5)	High	IV 99	42.7	I 01	-26.5	800-368-3863
3.1	1.4	10.3	8.2	322224	Average	9	9	20	24	Apache (2)	Average	IV 01	19.6	III 02	-20.5	800-368-3863
0.8	-0.2	NA	NA	123345	Very Low		NA	36	54	Progressive Ohio (12)	High	IV 99	31.2	III 01	-25.8	800-386-3829
-4.3	-4.5	3.6	2.9	525221	Low	1	99	NA	22	Sabmiller (3)	High	IV 99	26.5	II 98	-21.8	800-342-5236
1.4	0.2	7.5	5.9	523331	Low	15	78	NA	19	Cheung Kong Holdings (2)	Low	II 99	15.6	III 98	-17.2	800-342-5236
-4.3	-5.2	4.5	3	544221	Low	4	76	16	27	Technronic Industries (4)	Average	IV 01	16.2	III 02	-22.1	800-342-5236
3.3	1.6	10.2	7.8	522221	Average	9	59	16	20	Germany 4.5% Bond (5)	Low	II 99	13.4	III 02	-17.0	800-342-5236
-3.3	-3.8	NA	NA	515221	Average	4	90	NA	22	Telekomunikasi Indonesia (3)	High	IV 99	28.4	II 98	-22.2	800-342-5236
-0.2	-1.7	7.2	5.9	433332	Very Low	9	84	NA	20	Unilever (2)	Low	IV 99	16.8	III 02	-21.6	800-342-5236
1	-0.4	9.6	7	433332	Average	4	69	16	17	Cheung Kong (3)	Low	IV 98	15.3	III 02	-18.1	800-342-5236
4.3	3	11.6	10.5	441112	Very Low	2	11	14	40	Tejon Ranch (4)	Low	I 00	17.5	III 02	-19.4	800-880-8442
8.5	6.6	13.4	11.6	251113	Average	0	8	21	48	Pfizer (6)	Average	IV 98	25.0	III 02	-18.9	800-999-0887
3.8	3.4	NA	NA	222234	High		10	20	37	Health Mgmt. Assoc. (5)	Low	IV 99	21.6	III 02	-16.1	800-847-0200
-0.1	-0.7	NA	NA	133334	Average	0	6	20	26	Microsoft (4)	Average	IV 98	23.0	III 02	-16.5	800-223-1200
2.3	1.6	12.5	11.6	433322	Average		7	22	50	General Motors (13)	Average	IV 98	21.3	III 98	-21.3	800-443-3036
4.8	4.1	NA	NA	213355	High	0	3	25	17	Intuit (2)	Very High	IV 99	54.6	III 01	-32.3	800-224-6312
1.7	1	NA	NA	451122	Very Low	7	14	15	42	Transatlantic Holdings (5)	Low	IV 98	14.1	III 02	-17.4	800-432-4789
5.5	4.1	NA	NA	331122	Very Low		88	17	35	Nestle (3)	Very Low	IV 98	16.2	III 98	-17.9	800-642-4789
0	-0.8	NA	NA	133334	Very Low		1	19	24	General Electric (3)	Low	IV 98	21.1	III 02	-17.5	800-637-1568
-2.9	-3.8	5.7	4.3	215555	High	2	6	NA	45	UnitedHealth Group (7)	Very High	IV 99	51.2	I 01	-34.2	800-531-8181
-0.2	-1.6	6.7	5.1	442221	Low	2	22	NA	13	U.S. Treasury Notes (2)	Very Low	IV 98	7.9	III 98	-10.7	800-531-8181
-7.5	-8.2	1.9	-0.2	135555	High	4	2	NA	31	Pfizer (4)	High	IV 98	26.1	III 01	-25.5	800-531-8181
-1.5	-2.4	NA	NA	442223	Average	4	1	NA	20	Microsoft (2)	Average	IV 98	17.5	III 98	-17.5	800-531-8181
-1	-2.8	7.2	5	452223	High	2	5	NA	20	Citigroup (3)	Low	II 99	11.1	III 02	-20.1	800-531-8181
-0.7	-1.3	NA	NA	134333	Low	2	NA	NA	21	General Electric (3)	Average	IV 98	21.3	III 02	-17.3	800-531-8181
1.3	0.1	NA	NA	114455	Very High	5	NA	22	18	Electronic Arts (2)	Very High	IV 99	56.8	I 01	-29.1	800-421-5666
5.1	2.8	11.3	7.5	251123	Average	9	NA	14	31	Halliburton (5)	Low	IV 00	15.4	III 02	-19.3	800-421-5666
1.8	0.4	10.1	8.3	114455	High	7	NA	26	27	Microsoft (4)	High	IV 99	61.3	IV 00	-25.3	800-421-5666
-5.6	-6.8	5.8	3.7	234445	Average	4	NA	20	23	Microsoft (4)	High	IV 98	24.6	I 01	-21.5	800-421-5666
6.7	4.7	11.6	9.2	241121	High	8	NA	15	16	Bristol Myers Squibb (2)	Very Low	IV 98	12.4	III 02	-11.2	800-421-5666
4.9	3.3	11.2	8.6	241122	High	6	NA	15	26	Allstate (4)	Low	IV 98	15.9	III 02	-17.7	800-421-5666
-5.3	-6.6	5.4	2.6	244444	High	6	NA	17	28	Microsoft (4)	Average	IV 98	20.5	III 02	-17.7	800-421-5666
-0.6	-1	9.3	8.6	134433	Low		NA	26	23	General Electric (NA)	Average	IV 98	21.4	III 02	-17.2	800-662-2739
2.1	0.7	9.4	7.5	252222	Average		0	26	30	General Electric (NA)	Low	IV 98	14.3	III 02	-15.6	800-662-2739

Data: Standard & Poor's

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 2001-2002	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	2002 RETU PRE- TAX	AFT T
VANGUARD BALANCED INDEX INV.	B	Domestic Hybrid	B	3060.6	-1	No load	0.22	-9.5	-10
VANGUARD CAPITAL OPPORTUNITY	A	Mid-cap Growth	A	3578.4	-24	No load *	0.60	-28.0	-2
VANGUARD DIVIDEND GROWTH INV. (ao)	C-	Utilities	C	586.7	-15	No load	0.34	-23.2	-2
VANGUARD EMERGING MKTS. STOCK INDEX	C-	Diversified Emerging Markets	B	915.2	9	No load *	0.60	-7.4	-
VANGUARD ENERGY	B+	Natural Resources	B	1268.8	5	No load *	0.39	-0.6	-
VANGUARD EQUITY INCOME	B	Large-cap Value	B+	1996.5	-11	No load	0.47	-15.7	-16
VANGUARD EUROPEAN STOCK INDEX	C-	Europe	C	4101.5	-4	No load	0.30	-17.9	-18
VANGUARD EXPLORER	B	Small-cap Growth	B	3764.3	-13	No load	0.72	-24.6	-24
VANGUARD EXTENDED MARKET INDEX INV.	C	Mid-cap Blend	D	2686.1	-9	No load	0.25	-18.1	-18
VANGUARD GROWTH & INCOME INV.	C	Large-cap Blend	B	4870.3	-30	No load	0.45	-21.9	-22
VANGUARD GROWTH EQUITY	C-	Large-cap Growth	C-	583.7	-21	No load	0.77	-30.9	-3
VANGUARD GROWTH INDEX INV.	C	Large-cap Growth	B	6566.1	-23	No load	0.22	-23.6	-2
VANGUARD HEALTH CARE	A	Health	B+	14114.6	-15	No load *	0.31	-11.4	-12
VANGUARD INTERNATIONAL GROWTH	C-	Foreign	C	5088.8	-16	No load	0.67	-17.8	-1
VANGUARD INTERNATIONAL VALUE	C	Foreign	B	1155.0	32	No load	0.64	-13.4	-13
VANGUARD LIFESTRATEGY CONSERVATIVE GROWTH	B+	Domestic Hybrid	B+	2210.3	10	No load		-5.4	-6
VANGUARD LIFESTRATEGY GROWTH	B	Domestic Hybrid	C	3404.8	-8	No load		-15.8	-16
VANGUARD LIFESTRATEGY INCOME	B+	Domestic Hybrid	A	1028.0	27	No load		0.1	-1
VANGUARD LIFESTRATEGY MODERATE GROWTH	B	Domestic Hybrid	B	4074.5	-4	No load		-10.3	-11
VANGUARD MID CAP INDEX INV.		Mid-cap Blend		2333.2	22	No load	0.25	-14.6	-15
VANGUARD MORGAN GROWTH INV.	C	Large-cap Growth	B	2738.9	-21	No load	0.40	-23.5	-23
VANGUARD PRIMECAP	B+	Mid-cap Growth	B+	14053.6	-21	No load	0.49	-24.6	-24
VANGUARD PACIFIC STOCK INDEX	D	Diversified Pacific/Asia	C-	1445.4	3	No load	0.37	-9.3	-9
VANGUARD REIT INDEX	B+	Real Estate	C	1765.3	46	No load *	0.28	3.8	1
VANGUARD STAR	B+	Domestic Hybrid	B	7498.0	-8	No load		-9.9	-10
VANGUARD SELECTED VALUE	B	Mid-cap Value	C-	1117.8	17	No load *	0.70	-9.8	-10
VANGUARD SMALL CAP INDEX INV.	C	Small-cap Blend	C-	3142.0	-5	No load	0.27	-20.0	-20
VANGUARD SMALL CAP VALUE INV.		Small-cap Value		1217.1	69	No load	0.27	-14.2	-14
VANGUARD STRATEGIC EQUITY	B+	Mid-cap Blend	C	932.4	12	No load	0.54	-13.1	-13
VANGUARD TAX MANAGED CAPITAL APPREC.	C	Large-cap Blend	B	1244.0	-30	No load *	0.18	-23.5	-23
VANGUARD TAX MANAGED GROWTH & INCOME	C	Large-cap Blend	B	1174.1	-31	No load *	0.18	-21.9	-22
VANGUARD TAX MANAGED SMALL CAP		Small-cap Value		614.4	19	No load *	0.20	-14.4	-14
VANGUARD TOTAL INTL. STOCK INDEX	C-	Foreign	C	3068.6	8	No load		-15.1	-15
VANGUARD TOTAL STOCK MARKET INDEX INV.	C	Large-cap Blend	C	14916.5	-4	No load	0.20	-21.0	-21
VANGUARD TOTAL STOCK MARKET INSTL. PLUS		Large-cap Blend		847.6	-31	No load	0.25	-20.7	-21
VANGUARD U.S. GROWTH	F	Large-cap Growth	F	5480.1	-43	No load	0.50	-35.8	-35
VANGUARD VALUE INDEX INV.	C	Large-cap Value	C	2353.1	-22	No load	0.22	-20.9	-21
VANGUARD WELLESLEY INCOME INV.	A	Domestic Hybrid	A	7402.0	14	No load	0.33	4.6	3
VANGUARD WELLINGTON INV.	B+	Domestic Hybrid	B+	20007.4	-9	No load	0.36	-6.9	-7
VANGUARD WINDSOR II INV.	C	Large-cap Value	B	18493.7	-16	No load	0.40	-16.9	-17
VANGUARD WINDSOR INV.	B	Large-cap Value	B	11738.3	-26	No load	0.41	-22.3	-22
VANTAGEPOINT AGGRESSIVE OPPORTUNITY		Small-cap Growth		602.8	-13	No load	1.19	-38.5	-38
VANTAGEPOINT ASSET ALLOCATION		Domestic Hybrid		685.6	-18	No load	0.75	-15.8	-15
VANTAGEPOINT EQUITY INCOME		Large-cap Value		588.6	4	No load	0.92	-15.0	-15
VANTAGEPOINT GROWTH		Large-cap Growth		2203.6	-12	No load	0.88	-24.3	-24
VANTAGEPOINT GROWTH & INCOME		Large-cap Value		545.3	41	No load	0.85	-22.9	-23
VICTORY DIVERSIFIED STOCK A	B	Large-cap Blend	B+	974.8	-12	5.75 **	1.09	-22.8	-22.8
VICTORY STOCK INDEX	C-	Large-cap Blend	C-	974.8	75	5.75 **	0.62	-22.8	-23.0
WADDELL & REED ADV. ACCUMULATIVE A	B	Large-cap Value	B+	1671.5	-20	5.75	1.10 †	-23.0	-23.1
WADDELL & REED ADV. CORE INVMNT. A	C	Large-cap Growth	B	4640.4	-28	5.75	1.04 †	-22.0	-22.1
WADDELL & REED ADV. INTL. GROWTH A	C-	Foreign	C	723.7	-28	5.75	1.61 †	-18.7	-18.7
WADDELL & REED ADV. NEW CONCEPTS A	B	Mid-cap Growth	B	846.1	-27	5.75	1.50 †	-27.6	-27.6
WADDELL & REED ADV. RETIREMENT SHARES A	C	Domestic Hybrid	C-	647.3	-33	5.75	1.21 †	-20.4	-20.7
WADDELL & REED ADV. SCIENCE & TECHNOLOGY A	A	Health	B+	1695.5	-33	5.75	1.75 †	-26.8	-26.8
WADDELL & REED ADV. VANGUARD A	B	Large-cap Growth	B+	1378.1	-24	5.75	1.21 †	-20.4	-20.4
WASATCH CORE GROWTH	A	Small-cap Blend	B+	1142.3	7	No load *	1.29	-22.9	-22.9
WASATCH SMALL CAP GROWTH	A	Small-cap Growth	A	885.0	11	No load *	1.31	-23.4	-23.4
WASHINGTON MUTUAL INVESTORS A	B	Large-cap Value	B	44159.2	-8	5.75 **	0.65 †	-14.8	-15.4
WEITZ PARTNERS VALUE	A	All Cap	B+	2424.9	-13	No load	1.08	-17.0	-17.2
WEITZ VALUE	A	All Cap	B+	3364.2	-19	No load	1.06	-17.1	-17.5
WELLS FARGO ASSET ALLOCATION A	B	Domestic Hybrid	C	835.3	-20	5.75 **	0.99	-12.9	-13.4
WELLS FARGO DIVERSIFIED EQUITY I	C	Large-cap Blend	B	1122.8	-26	No load	1.00	-22.0	-22.1
WELLS FARGO EQUITY INCOME I	C	Large-cap Value	C	1006.9	-20	No load	0.85	-20.1	-21.7
WELLS FARGO GROWTH BALANCED I	B+	Domestic Hybrid	B+	1308.9	4	No load	0.93	-15.7	-16.2
WELLS FARGO INDEX I	C	Large-cap Blend	B	698.9	-14	No load	0.25	-22.0	-22.4
WELLS FARGO LARGE COMPANY GROWTH I	B	Large-cap Growth	B+	1279.1	-1	No load	1.00	-28.1	-28.1
WELLS FARGO SIFE SPLZD. FINCL. SVCS. A (ap)	C	Financial	D	514.8	-7	5.00	1.29	-13.7	-17.5
WHITE OAK GROWTH	D	Large-cap Growth	C-	1804.1	-51	No load	0.95	-40.0	-40.0
WM BALANCED B	B+	Domestic Hybrid	B+	780.5	11	No load *	1.78 †	-10.1	-10.6
WM CONSERVATIVE GROWTH B	B+	Domestic Hybrid	B+	659.9	-3	No load *	1.79 †	-16.3	-16.6

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. NA=Not available.
(ao) Formerly Vanguard Utilities Income. (ap) Formerly SIFE Trust Fund/Class A-I.

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)				HISTORY	PORTFOLIO DATA					RISK					TELEPHONE	
5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	UNTAXED GAINS %	P/E RATIO	TOP 10 STKS. %	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST		
PRETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	% RET	QTR	% RET	
2.9	1.8	8.4	7.1	243321	Low	0	NA	27	15	General Electric (NA)	Very Low	IV 98	12.7	III 02	-8.6	800-662-2739
14.9	14.1	NA	NA	111134	Very Low	7	NA	47	33	Pharmacia (NA)	Average	IV 99	37.6	III 01	-23.9	800-662-2739
-2.8	-4.6	4.9	2.9	251144	Low	3	NA	13	41	FPL Group (NA)	Low	III 00	13.6	III 02	-18.7	800-662-2739
-3	-3.7	NA	NA	515221	Very Low	10	100	NA	24	Anglo American (NA)	High	IV 99	28.5	III 01	-22.0	800-662-2739
4.9	3.6	11.8	10.2	531121	Low	5	NA	27	36	Conoco Phillips (NA)	Average	II 99	15.4	III 98	-14.2	800-662-2739
1.8	0.5	10.1	8.3	251122	Low	3	NA	20	22	ExxonMobil (NA)	Low	IV 98	13.2	III 02	-17.9	800-662-2739
-2	-2.7	8.1	7.4	144433	Very Low		100	NA	24	BP Amoco (NA)	Average	I 98	20.4	III 02	-22.8	800-662-2739
3.3	1.9	8.4	6.5	422244	Average	5	3	51	6	Henry Schein (NA)	High	IV 99	30.0	III 01	-21.7	800-662-2739
-1.5	-3.2	7.6	6	424333	Low		0	28	10	Berkshire Hathaway (NA)	High	IV 99	29.6	III 01	-21.0	800-662-2739
-0.3	-1.1	9.7	7.9	234333	Average	0	1	17	28	Johnson & Johnson (NA)	Average	IV 98	20.6	III 02	-16.0	800-662-2739
-3.9	-5.2	6	3.4	115333	Very High	1	NA	31	28	Pfizer (NA)	High	IV 99	39.7	IV 00	-29.0	800-662-2739
-1.1	-1.4	8.6	8.1	125334	Low	0	NA	23	40	General Electric (NA)	Average	IV 98	24.6	I 01	-17.5	800-662-2739
14.8	12.9	18.6	16.8	141122	Very Low	8	NA	26	35	Pharmacia (NA)	Very Low	IV 98	18.6	I 01	-12.6	800-662-2739
-2.1	-3	6.1	5.2	234433	Low	10	100	NA	26	Samsung (NA)	Average	IV 99	21.8	III 02	-20.8	800-662-2739
0.1	-0.9	4.7	2.7	233442	Low	5	99	NA	19	Kingfisher (NA)	Average	IV 98	20.6	III 02	-20.7	800-662-2739
4	2.6	NA	NA	344221	Low		NA	NA	100	Vanguard Total Bond Mkt. (31)	Very Low	IV 98	8.8	III 02	-6.7	800-662-2739
0.7	-0.2	NA	NA	233322	Very Low		NA	NA	100	Vanguard Total Stock Mkt. (50)	Low	IV 98	17.3	III 02	-14.9	800-662-2739
5.6	3.8	NA	NA	352211	Very Low		NA	NA	100	Vanguard Total Bond Mkt. (51)	Very Low	IV 98	4.9	III 02	-2.5	800-662-2739
2.5	1.4	NA	NA	243321	Low		NA	NA	100	Vanguard Total Stock Mkt. (35)	Very Low	IV 98	13.1	III 02	-10.8	800-662-2739
NA	NA	NA	NA	411222	Low		NA	25	8	M&T Bank (NA)		IV 98	28.4	III 02	-16.6	800-662-2739
-1.1	-2.6	8.2	5.8	224334	Average	2	NA	28	20	Microsoft (NA)	High	IV 98	25.9	III 01	-20.8	800-662-2739
3.9	3	13.3	12.3	222334	Very Low	7	NA	39	35	FedEx (NA)	Average	IV 98	28.8	III 01	-21.7	800-662-2739
-4.4	-4.7	-1.5	-1.8	415551	Very Low		99	NA	20	Toyota (NA)	High	IV 98	26.5	III 01	-18.3	800-662-2739
3.4	1.4	NA	NA	555111	Very Low	2	NA	21	35	Equity Office Properties (NA)	Low	II 01	10.7	III 98	-10.4	800-662-2739
3.9	2	9.3	7	344221	Very Low		NA	NA	97	Vanguard Windsor (21)	Very Low	IV 98	11.5	III 02	-9.4	800-662-2739
0.9	0.3	NA	NA	555111	Average	1	NA	17	35	Mylan Laboratories (NA)	Average	IV 98	17.5	III 98	-27.2	800-662-2739
-0.8	-2.3	8	6.3	533113	Low		NA	30	2	Smucker (NA)	High	IV 01	20.9	III 02	-21.3	800-662-2739
NA	NA	NA	NA	511122	Average	0	NA	27	8	Pogo Producing (NA)		IV 01	21.4	III 02	-22.5	800-662-2739
3.4	2.2	NA	NA	432212	Average	0	NA	16	15	Entergy (NA)	Low	IV 98	21.3	III 98	-20.7	800-662-2739
-0.1	-0.3	NA	NA	124444	Low	0	NA	28	21	General Electric (NA)	Average	IV 98	25.4	III 01	-18.6	800-662-2739
-0.5	-0.9	NA	NA	134433	Low		0	26	23	General Electric(NA)	Average	IV 98	21.4	III 02	-17.1	800-662-2739
NA	NA	NA	NA	1112	Low	0	NA	26	6	Alliant Techsystems (NA)		IV 01	20.5	III 02	-18.4	800-662-2739
-3	-3.5	NA	NA	324442	Very Low		NA	NA	100	Vanguard European Stock (63)	Average	IV 98	20.5	III 02	-19.7	800-662-2739
-0.8	-1.2	8.6	7.9	234433	Low	0	NA	22	19	General Electric (NA)	Average	IV 98	21.5	III 02	-16.8	800-662-2739
NA	NA	NA	NA	3	Low		NA	22	19	General Electric (NA)		IV 01	12.4	III 02	-16.8	800-662-2739
-9.7	-11	3	1.8	135555	Average	2	NA	27	44	Pfizer (NA)	High	IV 98	24.7	I 01	-31.0	800-662-2739
-0.9	-2.3	9.3	7.8	342333	Average		NA	24	29	ExxonMobil (NA)	Average	IV 98	17.5	III 02	-20.5	800-662-2739
6.8	4.4	9.9	7.3	355111	Low	2	NA	18	12	ExxonMobil (NA)	Very Low	III 00	6.9	III 02	-3.9	800-662-2739
4.6	2.6	10.3	8.2	352211	Low		NA	20	13	Northrop Grumman (NA)	Very Low	I 98	7.8	III 02	-11.0	800-662-2739
0.6	-1	10.2	8.2	355122	Low	3	NA	18	25	Entergy (NA)	Low	IV 98	14.9	III 02	-17.2	800-662-2739
1.4	-0.4	9.9	7.2	441114	Low	2	NA	18	28	Citigroup (NA)	Average	IV 01	14.4	III 02	-20.2	800-662-2739
NA	NA	NA	NA	445	Average	25	3	28	35	Comcast (3)		IV 99	39.9	III 01	-30.4	800-669-7400
NA	NA	NA	NA	322	High	28	2	18	31	General Electric (2)		IV 02	9.4	III 02	-15.6	800-669-7400
NA	NA	NA	NA	1112	Low	1	6	17	35	First Midwest Financial (12)		IV 00	8.9	III 02	-16.3	800-669-7400
NA	NA	NA	NA	344	Low	13	3	22	37	American Intl. Group (3)		IV 99	26.7	III 01	-20.6	800-669-7400
NA	NA	NA	NA	224	Average	12	4	18	26	ExxonMobil (2)		IV 99	17.6	III 02	-17.5	800-669-7400
2.6	0.5	10.9	7.9	233114	High	5	3	18	33	Caterpillar (4)	Average	IV 98	15.9	III 02	-19.0	800-539-3863
-1.6	-2.8	NA	NA	234334	Low	2	1	21	24	General Electric (3)	Average	IV 98	21.1	III 02	-17.4	800-539-3863
3.8	1.2	9.9	6.4	231444	Very High	34	4	20	31	Conocophillips (5)	Low	IV 99	24.9	III 02	-16.2	800-366-5465
0.9	-1.3	9	7	242343	Low	18	6	20	34	Lockheed Martin (7)	Low	I 98	14.8	III 02	-16.4	800-366-5465
-2	-3.9	7.5	5	215443	High	15	93	NA	31	Reckitt Benckiser (4)	Average	IV 99	46.7	III 98	-17.3	800-366-5465
2.7	1	8.4	6.7	111444	Low	15	2	27	28	eBay (4)	High	IV 99	46.2	III 01	-21.5	800-366-5465
0.6	-1.5	6.4	4	423333	Very High	4	5	25	27	Microsoft (4)	Average	IV 99	28.9	III 01	-17.6	800-366-5465
12	9.8	14.2	11.8	111434	Average	35	11	25	34	Forest Labs (5)	High	IV 99	61.7	I 01	-19.9	800-366-5465
2.3	1.3	8.1	6	123333	Average	10	4	19	43	Philip Morris (7)	Average	IV 99	31.1	I 01	-21.9	800-366-5465
10.6	9.6	14.7	12.5	433114	Average	0	1	14	50	Rent-A-Center (11)	Average	II 01	30.7	III 02	-26.4	800-551-1700
11.7	9.6	13.7	11.5	321114	Low	4	6	25	32	Orthodontic Ctrs. America (4)	High	IV 01	32.0	III 98	-23.8	800-551-1700
2.6	0.9	11.8	9.6	252212	Low	2	1	17	25	ChevronTexaco (4)	Low	IV 98	14.0	III 02	-17.9	800-421-0180
9.4	7.8	NA	NA	131122	Very Low	16	0	NA	49	Liberty Media (6)	Low	I 98	16.6	III 02	-13.3	800-232-4161
9.2	7.6	14.3	12.4	131122	Very Low	10	1	NA	47	Liberty Media (6)	Low	I 98	16.5	III 02	-14.9	800-232-4161
2.3	0.3	8	5.7	242222	Average	6	3	21	30	U.S. Treasury Bonds 8/15/93 (3)	Low	IV 98	16.2	III 02	-12.4	800-222-8222
-0.3	-1.1	NA	NA	233333	Average	4	18	21	19	Microsoft (2)	Average	IV 98	19.9	III 02	-19.4	800-222-8222
-0.4	-1.4	NA	NA	242233	Very Low	4	9	18	40	Fortune Brands (5)	Low	IV 98	15.7	III 02	-20.8	800-222-8222
3.9	2.6	NA	NA	242222	Average	12	14	21	18	Microsoft (2)	Very Low	IV 98	16.9	III 02	-15.6	800-222-8222
-0.7	-1.3	NA	NA	134333	Low	4	4	21	26	Microsoft (3)	Average	IV 98	21.3	III 02	-17.2	800-222-8222
1.4	1.1	NA	NA	123444	Low	2	NA	31	51	Microsoft (7)	High	IV 98	31.6	I 01	-22.8	800-222-8222
-0.5	-2.6	11.3	8.5	451222	Average		100	14	48	Citigroup (8)	Average	IV 98	19.6	III 98	-18.2	800-222-8222
-4.5	-4.5	7.8	7.7	122255	Very Low	0	NA	23	70	M8NA (9)	Very High	IV 98	37.5	I 01	-33.3	888-462-5386
5.1	3.7	NA	NA	333321	Very Low		NA	NA	95	WM Income (18)	Very Low	IV 99	15.2	III 02	-8.9	800-222-5852
4.6	3.4	NA	NA	223222	Very Low		NA	NA	100	WM Growth & Income (24)	Low	IV 99	21.9	III 02	-13.0	800-222-5852

Data: Standard & Poor's

BUYING WALL STREET'S ATTENTION

Paid-for research is a questionable, barely regulated practice—and likely to keep growing

On Jan. 6, the financial newswires reported rare good news for Hartmarx Corp.: A securities analyst had finally acknowledged that the company exists. Chicago-based Hartmarx, whose stock trades on the New York Stock Exchange, is very much a presence in men's clothing stores, with its product lines including Hart Schaffner & Marx and Hickey-Freeman suits. But lagging sales and falling share prices had turned it into the Wall Street version of an unperson since early 2001—the last time Hartmarx had analyst coverage. All that abruptly changed with an 18-page research report and “speculative buy” recommendation from the New York brokerage firm Taglich Brothers Inc.

Why the sudden interest? After all, this staid garment manufacturer had done nothing that would ordinarily pique analyst interest. It wasn't generating investment-banking revenues and hadn't produced any particularly sexy news in quite a while. The reason for the newfound attention can be found in a footnote on page 12 of the report: “The company pays Taglich Brothers Inc. a monthly fee for the creation and dissemination of research reports.” For Hartmarx, the decision to buy the report was a no-brainer. “The traditional investment-banking firms are not interested in small, micro-cap situations such as ourselves,” says Glenn R. Morgan, Hartmarx' chief financial officer.

Hartmarx' predicament is at the heart of a troubling issue. Increasingly, analyst-bereft companies have been reduced to buying investment research—a controversial practice that is commonplace in the fringes of the

over-the-counter market, where paid reports often do little more than shill for companies. The spread of paid research has received remarkably little regulatory attention despite the recent debate over analyst conflicts of interest.

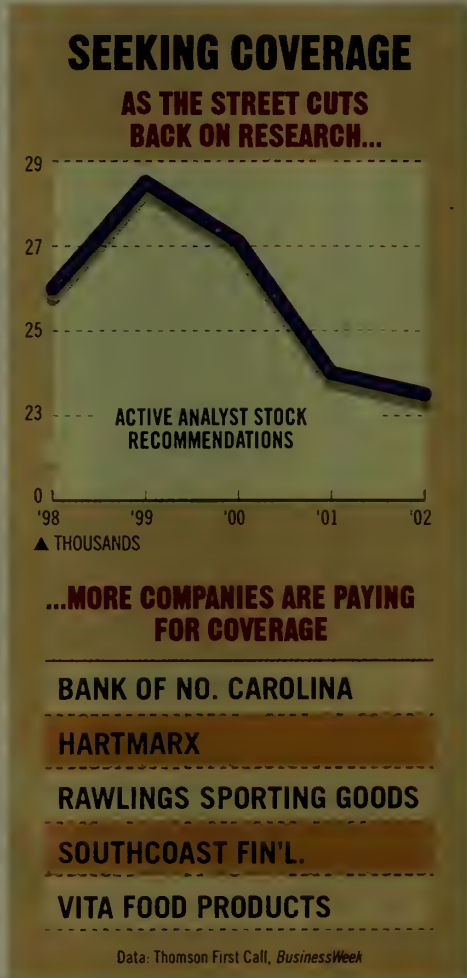
The few statistics on the subject are startling. A February, 2002, survey by the National Investor Relations Institute, the professional association of investor relations execs, found that 10% of all companies surveyed—ranging from micro-caps to large-cap companies—had commissioned stock research during the preceding two years. Among the companies engaged in this practice is Ea-

syLink Services Corp., an Edison (N.J.) based company in which William Donaldson, nominated to become chairman of the Securities & Exchange Commission, served as a director. He would say if he knew about, or approved, the paid research (BW—Jan. 13).

EasyLink is in good company. Thousands of companies paying for research include growing numbers of established even name-brand companies with products ranging from catchers' mitts (Rawlings Sporting Goods Co.) to pickled herring (Vita Food Products Inc.), and include dozens of regional banks that have trouble generating analyst interest in the best of times. And the issue is not likely to come back to haunt Donaldson—at the SEC, at least—if he wins confirmation. An SEC spokesperson says that, apart from continued active enforcement of the laws requiring proper fee disclosure, no rulemaking is planned to deal with this issue.

With regulatory attention diverted, the climate for paid research is likely to remain favorable, as traditional research declines because of the bear market and downsizing by brokerage houses. According to First Call, which tracks analyst research, the total number of analyst stock recommendations has fallen 18% over the past three years, from 28,500 to 23,500 (chart). Still, paid research has an obstacle to overcome: a awful reputation. That is conceded even by its staunchest defenders, who admit that this breed of research, though legitimate if disclosed to investors, has been hurt by its association with pump-and-dump stock schemes and a reputation for puffery even by analyst standards. “One of our members commented, ‘Paying for research is like paying for a date with a good-looking person. You might enjoy it and you might turn a few heads, but you'd never want to admit that you had paid for it,’” says NIRI President Lou M. Thompson Jr.

The people who produce company



Not all paid research is pure puffery. Some of it covers compa



compensated research—research boues and small brokerages—feel that bad rap is unjust. They note that panies “pay” for traditional analyst rage, indirectly, mainly by invest-t-banking fees. Their brand of re-arch, they maintain, is equally ethical. e idea that such a thing as inde-ent research exists, that is not com-sated in some way, is a fallacy,” says ncisco Clough, Taglich’s vice-presi-t for corporate development. roponents of paid research contend t, even though the companies foot bill, there is no understanding that

favorable research will result. Fees, they note, are often nominal, with Hartmarx paying an up-front fee of \$5,000 plus \$1,750 a month. “The whole thing comes down to the integrity of the person who’s writing the research, and you can say that for traditional research or paid research,” says John A. Howard, presi-dent of Equity Research Services Inc., a Raleigh (N.C.) firm that produces paid research for small regional banks.

Paid-report writers also point out that one form of issuer-commissioned research—credit ratings—has a long and reputable history. John M. Dutton,

whose J.M. Dutton & Associates re-search firm produced the EasyLink re-port, compares his firm’s business mod-el with the one employed by agencies such as Standard & Poor’s, which like *BusinessWeek* is owned by The Mc-Graw-Hill Companies. That argument is rejected by Kenneth Shea, S&P’s eq-uity research director, who notes that ratings are narrow assessments of com-pany creditworthiness, do not involve buy or sell recommendations, and are a far cry from the much broader analysis required in equity research. “The com-pany pays us to give a credit evalua-tion,” says Shea. “We’re not telling you to buy it. There are some AAA bonds that may be terrible investments be-cause of their price—we don’t make any statement about that.”

Still, it’s certainly true that a good deal of paid research fills a gap that Wall Street firms don’t even attempt to bridge. Regional banks are a prime ex-ample. Howard founded Equity Re-search in 1989, after his firm, Thompson McKinnon Securities, was taken over by Prudential Securities Inc., which pro-ceeded to drop its coverage of the small Southeastern banks Howard had fol-lowed. The reports generated by Equity Research don’t contain buy or sell rec-ommendations—a major issue for NIRI, whose guidelines, adopted early in 2002, allow paid reports only if they don’t contain purchase recommendations and don’t resemble ordinary analyst reports.

The NIRI guidelines are voluntary and are widely ignored by paid-research firms. And the disclosures contained in these reports are sometimes ambiguous at best in describing payment arrange-ments. Until last fall, a Minneapolis firm called BlueFire Research said in its re-ports that the subjects of the reports “paid no direct compensation.” But the reports didn’t say that virtually all of the companies covered by BlueFire paid \$60,000 a year to an affiliated company. William Bartkowski, BlueFire’s chief ex-ecutive, says the disclosures now say that a BlueFire entity does business with the companies. But his firm’s reports oth-erwise disregard the NIRI guidelines—because of the view, widely held by paid-report writers, that their output is genuine analysis, not investor relations.

That’s a dubious argument. But for now, they have the last word. So long as the few guidelines governing paid re-search are given short shrift and regu-lators are focused on other issues, paid research is likely to remain the Wild West of the analyst business.

By Gary Weiss in New York

small banks that the Street doesn’t try to follow



COMMENTARY

By Emily Thornton

THE STREET'S RISKY TRADING: MORE INFORMATION, PLEASE

When all else fails, Wall Street trades. Now, with dealmaking and new stock issues at a low ebb and unlikely to recover anytime soon, the big investment banks are going back to their roots and once more trading like crazy.

It's a risky and often scary business. Naturally, the big firms are loath to talk about their major snafus. But snafus there are. Like last January, when Goldman Sachs & Co. apparently lost between \$75 million and \$300 million trading Vivendi Universal stock for the company, says investment-banking boutique Fox-Pitt, Kelton Inc. Goldman won't comment. Neither will Lehman Brothers Inc. about a deal last year in which, according to market talk, it was left holding the bag on thousands of shares in Spanish bank Santander Central Hispano as the price cratered.

An occasional hit may come with the turf, but the banks are on the hook for big amounts every day. And they need to be more open about what they're doing. Using complex mathematical models that crunch data from past financial market meltdowns, Putnam Lovell NBF Securities Inc. figures that the seven major investment banks could be in the hole for \$300 million on a day when everything goes wrong, a 23% jump from 2000. It estimates that Goldman's daily exposure has soared 65%, to \$46 million. "You're seeing more risk-taking across the board because to make money you need to take more risk these days," says James F. Mitchell, a securities industry analyst at Putnam.

Investors and rating agencies are

concerned about the increase in the banks' own capital that is tied up in trading, both for their clients and for their own portfolios. For example, the inventories of securities the big firms hold swelled 24% in two years, to \$1 trillion at the end of last year.

They're also trading much more with freewheeling hedge funds than with traditional customers such as staid insurers and mutual funds. And that has ratcheted up the risk even further. "You're dealing with a clientele that has more credit risk," says David A. Hendler, securities industry analyst at research firm CreditSights.

Given all the gyrations in revenues from trading, some firms' financial results are on a roller coaster. On Jan. 22, J.P. Morgan Chase & Co. is expected to announce it made about \$1 billion from trading in the fourth quarter, up from \$365 million in the third. By contrast, Goldman suffered a 40% drop in its fixed-income-trading revenues, after racking up a record \$1.3 billion in the third quarter.

PILING IT ON

As they commit more capital to trading, firms' inventories of securities are soaring

FIRM	AMOUNT (BILLIONS)	% INCREASE*
GOLDMAN SACHS	\$138	43.9%
BEAR STEARNS	58	33.1
MORGAN STANLEY	174	32.8
CITIGROUP	162	22.1
LEHMAN BROTHERS	120	14.3
J.P. MORGAN CHASE	239	10.7
MERRILL LYNCH	111	10.7

* Sept. 30, 2002 compared with Dec. 31, 2000

Data: Putnam Lovell NBF Securities Inc.

Firms are quick to argue that risk taking is their business, and that they have more tools to manage it than ever. "We assume risk in very liquid markets in a way that generally limits our downside and has served our clients and shareholders well," says Goldman spokesman Bruce Corwin. Indeed, the firms may be coping with the risks better than before. "This time investment banks have not crashed and burned as they have in past recessions," says Thomas C. Goggin, manager of the John Hancock Financial Industries Funds.

Still, to calm investors' jitters, firms are starting to disclose more about their trading. In December, Goldman revealed in its quarterly report how much money it had at risk in trading. Morgan Stanley is breaking out trading revenues by category, though it still doesn't say how much money each product makes—or loses. "There's no doubt that investors are looking for more [information], and that's something we want to be a leader in," says Morgan Stanley Chief Financial Officer Stephen Crawford.

That's the right attitude, but they all have a long way to go. The big firms pushed to diversify away from trading in the '90s. Now they're back at it. But there's a difference. Once, most firms were private partnerships gambling with their partners' money. Now, they have shareholders. And that means the stakes are a lot higher.

*Thornton covers
investment banking*

**To a visitor, it's a barren desert.
To our supporters, it's bustling with life.**

**If you know the land like we do, you'll know that even the most arid
landscapes are full of life. That's why The Nature Conservancy works
with people like you to preserve special places
close to your heart and home. Help us save the Last
Great Places around the world. Visit nature.org or
call 1-888-2 JOIN TNC.**

**The
Nature
Conservancy®**
Saving the Last Great Places
nature.org



One of the best investments
you can make
won't make you a dime.

TAKE ESTEFA NIÑA DE ZARATE. A few years ago, she could barely feed her family. Now, thanks to loans as small as \$100 from ACCION, she's expanded her tiny business and is saving for her kids' education. In our book, that's a great ROI. In the last 25 years, ACCION has loaned over \$3.7 billion to the poor, and changed millions of lives forever. But we can't do it alone. Please help us give the working poor the credit they deserve.

ACCION
More than hope, success.

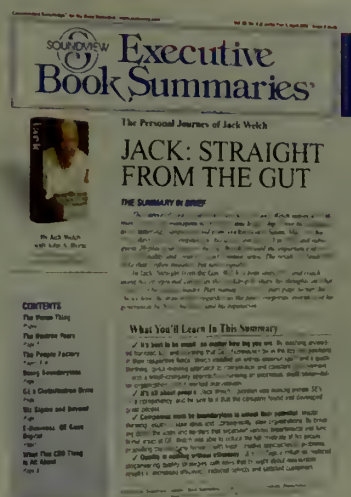
ACCION International, 56 Roland Street, Suite 300, Boston, MA 02129 USA • 617-625-7080 • www.accion.org

Approximate reading time
hours, 30 minutes

Approximate reading time
30 minutes



Don't miss photograph of Jack Welch by Timothy Greenfield-Saunders



Learn more in less time.

hundred important books come out every year. As
cutive in today's business environment, you know that
st keep current with the expanding base of knowledge.
w can you possibly keep up with all this information?
n help.

ow that you need easy access to the latest business
ence. That's why BusinessWeek invites you to subscribe
ndview Executive Book Summaries.
enced editors make it easy for you.

**GREAT
VALUE!**

BusinessWeek

After reviewing many newly published business books, they
select the year's thirty best. Each book is condensed into
an eight-page power-packed summary — with the essential
information that will keep you abreast of today's leaders
and trends. You'll quickly gain a working knowledge that
will help you to prepare for presentations, make decisions,
assume leadership responsibilities, and respond to high
pressure situations.

Gain the confidence that only a broad scope of knowledge
can provide — subscribe today!

We even make subscribing quick and easy.

Online: www.summary.com/bw

Toll-Free: 800-345-8199

Refer to offer #S4839003

Use us a call, or subscribe online, and we'll send you Soundview Executive Book Summaries for 14 months at only \$129. That's two months FREE,
plus we'll send a FREE copy of Skills for Success — a compilation from our best summaries of great ideas for executive success.

U.S. and Canada, call: 610-558-9495 or fax: 610-558-9491. Payment in U.S. funds only please. To Canada, U.S.\$129 plus GST/HST; to Mexico, U.S.\$129; to all other countries, U.S.\$159.

Experience the Legend



There's a place where business opportunities, good friends and families come together. Welcome to Waterfall Alaska. A resort of legendary sportfishing and epic experiences. It may be the best investment you make all year.

Name _____

Company _____

Address _____

City _____ State _____ Zip _____

Phone _____ Fax _____

Email _____

How big of a fish do you want to catch? _____

Are you very interested in legendary sportfishing? ☐ Yes

Number of guests _____

Preferred season: ☐ 2002 ☐ 2003

Save 10% now
fax this page to
907-225-8530

We'll also send a
complimentary video and brochure.*

*Discount applies to published retail package rate

Supporting our country.



www.waterfallresort.com

800-544-512



COMMENTARY

By Michelle Conlin

LOOK WHO'S BRINGING HOME MORE BACON

More than a month into his relationship with Betsy Morgan, Chad Gifford found himself sitting nervously in the parents' dining room in Suffield, Conn., where the clan had gathered for a winter lunch. "So tell me, Chad," the banker father began, lowering his voice before the roast was served. "How much does an archaeologist earn?"

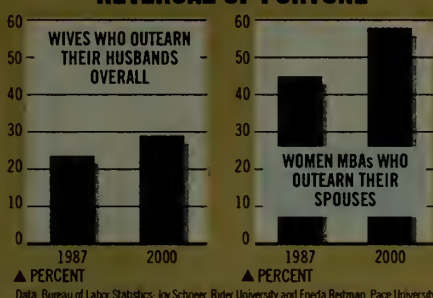
Free, Mr. Morgan, not much. Today, 10 years later, Betsy, 34, and Chad, 32, are a happily married Manhattan couple. Betsy is a CBS executive who makes fat cash. Chad is an archaeologist who jaunts all over the world and digs that barely pay. She buys Prada shoes. He still owns clothes from high school. She burns water. He learned how to wash lettuce from a family friend—Julia Child. "We agree that I should make Chad a non-profit," says Betsy.

The American family has something new going for it: the femmes who finance. After only three decades as members of the mainstream workforce, one in three wives now outearns her husband, up from one in five in 1980. Women with MBAs are doing even better: Nearly 70% have direct deposits bigger than their husbands'. Look at the ranks of the Ms. breadwinners

to rise even more, with 20% more women than men graduating from college and more women swelling the managerial ranks every year.

Francine M. Deutsch, a psychology professor who studies gender roles and parenting at Mount Holyoke College in South Hadley, Mass., believes

REVERSAL OF FORTUNE



the trend will help erode the mommy tax—the heavy penalties women pay for having children—and help ease female poverty in old age.

The shift puts a twist on the term "purse strings." Researchers say the phenomenon is helping restructure marriage by creating mergers of complementary strengths, in which power is shared and spouses act as flexible allies who easily switch back and forth between roles. In essence, the family now has co-CEOs. "I expected to find these women lording it over their husbands," says Barbara Stan-ny, author of *Secrets of Six-Figure Women*. Stanny studied 150 women earning \$100,000 or more. Nearly 70% earned more than their partners. But even though they raked in more cash—and often managed the family finances—Stanny found that most wanted interdependent relationships. "They all talked about how crucial their husbands were to success," says Stanny.

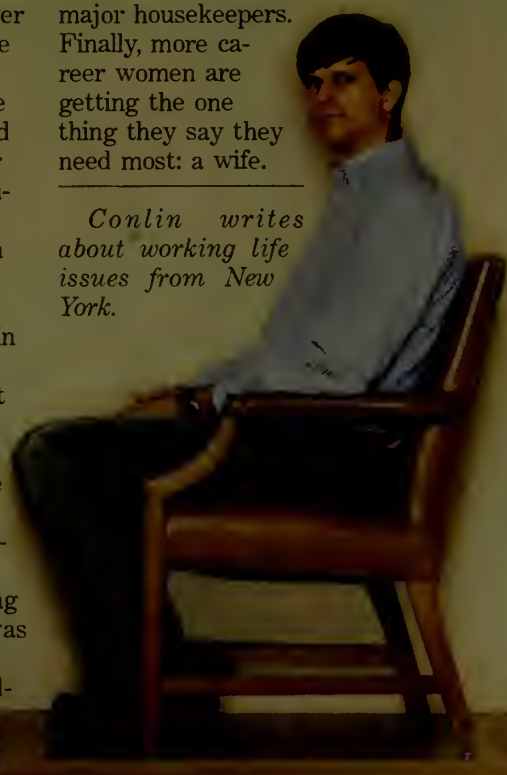
How well a couple fares depends on how successfully they share childrearing and what their pact was upon marriage. Resentment can flare if the bread-

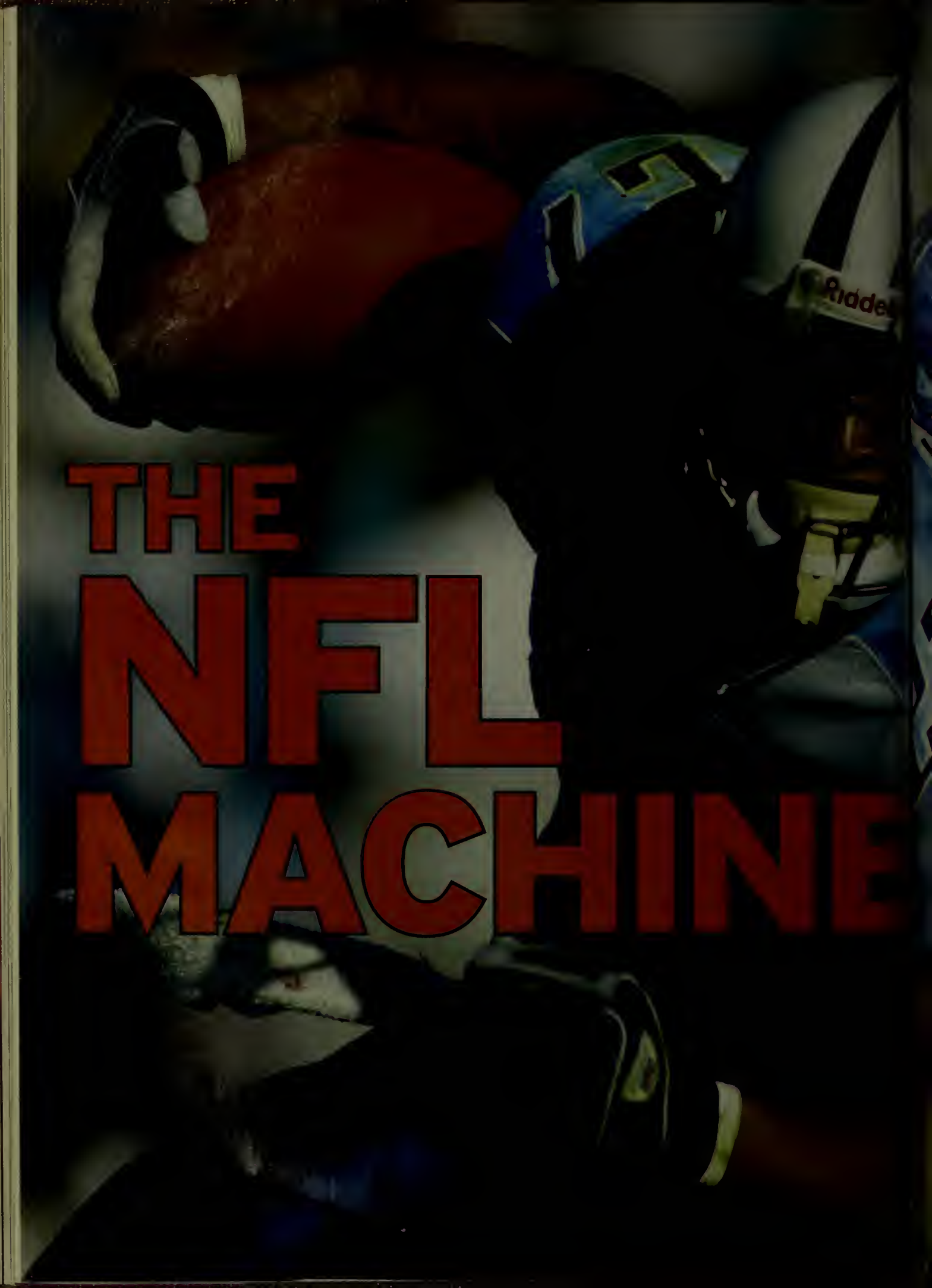
winner role was unexpectedly foisted on the wife by a layoff or sudden failure, says *Breadwinner Wives and the Men They Marry* author Randi Minetor. One PR executive financed her husband's new restaurant and ended up pleading her case in bankruptcy court with \$960,000 of debt attached to her name. She lost the 2,200-square-foot house with the pool and her Audi A6. "I thought supporting his dream would get me to my dream—to be a stay-at-home mom," she says. Instead, she wound up a Saturn-driving single parent living in a condo with no credit.

Some husbands balk, threatened by their wives' new power. One recent Penn State University study found that men tend to become gloomier and more prone to headaches when their wives begin earning more. Still, the positives can be considerable if men have strong self-images, feel no need to compete with their wives, and don't have in-laws shaming them for their role. Men with breadwinner wives are often relieved to share the onus, especially given the enormous resources required to raise a family in an era of slippery job security. The role swap allows men to spend more time with their children and pursue passions that a megacareer would prohibit.

Indeed, the more economic power the wife has, the more men help out at home. Minetor found that 51% of men with breadwinner wives are the major housekeepers. Finally, more career women are getting the one thing they say they need most: a wife.

Conlin writes about working life issues from New York.





THE NFL MACHINE



**Behind a
thrilling
season is a
hard-nosed
business run
with military
precision**

BY TOM LOWRY

In this era of bad-boy businessmen and the corporate perp walk, it's hard to imagine any CEO commanding a police escort—unless he's cuffed in the backseat of a patrol car. Still, that's what is waiting for Paul Tagliabue as his private jet touches down in Tampa in early December. Why the rock-star treatment? Simple. From September to February, this bookish 62-year-old with the button-down look of a corporate lawyer controls the passion of America—the 32 teams of the NFL. Besides, he can get Super Bowl tickets.

There are hours to go before the Tampa Bay Buccaneers face the Atlanta Falcons, but Tagliabue hops into a black Lincoln Town Car buffered by two police cruisers. As sirens blare and lights flash, the commissioner's car is guided through pregame traffic directly into the caverns beneath Raymond James Stadium. Fans treat him like a celebrity, too. “Hey commish, over here,” shouts one Warren Sapp wannabe in a bright-red

No. 99 jersey as he snaps a photo. The

Cover Story

6-foot, 5-inch Tagliabue signs autographs and chats with security guards before strolling out onto the lush field to watch warm-ups. He quickly notes that the socks of Falcons star quarterback Michael Vick are scrunched down around his ankles in violation of league rules. They are pulled up tightly by kickoff time.

Sometimes a quarterback finds himself in a sweet spot where everything works just right, week after week. Tagliabue in 2002, and now heading into the Super Bowl on Jan. 26 in San Diego, is in that kind of groove. Behind him is a thrilling, anyone-can-win season and a white-knuckle postseason. Ahead is a media empire in the making. The National Football League recently signed a \$2 billion satellite-TV deal. There are three years left on an \$18 billion network and cable contract. Twenty spanking-new football-only stadiums have been built or renovated in the past 10 years, thanks to the league's deft use of the bond market. Sponsors keep queuing up to get a piece of the NFL brand. Harmony reigns among players and owners. And heck, as John Madden might say, this is in the middle of an economic slump.

PHOTOGRAPH BY
SCOTT HALLERANG/GETTY IMAGES

Maybe one reason for Tagliabue's championship season in the face of a stubborn downturn is that the NFL is not exactly a model of capitalism. The commissioner has made it his mission to distribute equally as much of the league's revenues as possible among the teams of the National Football Conference and the American Football Conference. "We're 32 fat-cat Republicans who vote socialist," Baltimore Ravens owner Art Modell quipped recently. It doesn't hurt that players have agreed to a hard cap on salaries and few guarantees (page 91). "I don't see this as us vs. the owners, but instead it's us vs. all the other entertainment choices out there: the movies, music, theater," says Gene Upshaw, the former Oakland Raider and Hall of Famer who represents 2,000 players as executive director of the NFL Players Assn.

To understand the success of the business that Tagliabue has built and runs with almost military precision, take a

Cover Story

THE NFL

look at the season just past. It started in early September, when the commish and his marketing team were able to persuade New York City to shut down Times Square during rush hour on a workday for a kickoff concert featuring Jersey rockers Bon Jovi. Half a million people turned out.

By the final regular-season weekend at the end of December, 19 teams still had a shot at the playoffs and a record 24 games had been decided in overtime. Those photo finishes helped boost TV viewership by 5% over 2001, inching closer to the NFL's recent peak in 1999. An average of 15.8 million viewers this season tuned in to any one game on the networks, according to Nielsen Media Research. For a league that loves to boast about competitive balance, it couldn't have been a more satisfying finale. "They wanted parity. They sure got parity," says Richard A. Bilotti, a media analyst at Morgan Stanley.

Life looks like a cakewalk for the 83-year-old NFL these days, but it's not as if the league hasn't had its issues. Grumbling that the game had gone flat led to the birth in 2001 of the testosterone-infused XFL—a smash-mouth spectacle featuring cheerleaders dressed like showgirls. But this production of World Wrestling Entertainment and NBC proved too staged, too self-parodying, and maybe even too violent to turn the curious into fans.

Not that violence isn't a good part of the NFL's appeal on-field—and a problem for the league off-field. The controversial 1998 book *Pros and Cons: The Criminals Who Play in the NFL* cited research showing that one in five players during the 1996-97 season had been charged with a serious crime at one time. "These guys are the gladiators of modern culture," says sports media consultant Neal Pilson. "And with that come pluses and minuses associated with players who are larger than life." It doesn't help



that a string of crummy calls by refs in recent games has fans, owners, coaches, and players riled up. But most of focus has been where it should be: between the chalk line

Beyond the compelling action on the turf, the NFL, already widely considered the most successful and opportunistic of the pro leagues, has struck half a dozen or so blockbuster business deals in the past year. The moves, from a new \$2 billion, exclusive satellite television deal with DirecTV (triple the value of the previous

(4%) comes from DirecTV's Sunday Ticket, merchandise NFL Films syndication fees sponsorships. It is shared equally. Each team gets millions

\$200 MILLION

\$1 BILLION (22%) comes from local sponsorships, luxury suites, broadcasting, parking and concessions. It is retained by the individual clubs

\$1.1 BILLION (22%) comes from ticket revenues. \$350 million of it is put into a visitors pool and split evenly. Each team gets \$10.9 million.

\$2.5 BILLION (52%) comes from network- and cable-TV contracts and is split by the 32 teams, giving each \$78 million.

HOW THE NFL LEVELS THE PLAYING FIELD

Total league revenues in 2002: **\$4.8 BILLION**

THE TAGLIABUE WAY

In 14 years as commissioner, Paul Tagliabue has helped make the NFL the premier pro sports league. Here's how:

Negotiating a labor agreement with players that has been extended three times with relative ease.

Striking national television deals that pay the league hefty fees each year.

Working closely with owners and cities to build new football-only stadiums—20 since '93.

Pumping up the NFL and by pushing into all areas of media, from music to Hollywood to a new TV channel.

to a \$300 million sponsorship by Coors, underscore pro football has been able to leverage its mass following double revenues in five years, to \$4.8 billion in 2002. By comparison, the valuable cable networks at media giant Viacom, such as MTV and Nickelodeon, had revenues totaling \$1 billion in 2001.

The NFL estimates that revenues will grow by an additional \$1 billion over the next three years. "When [Tagliabue's predecessor] Pete Rozelle ran the league, it was a football business and a good one," says Paul J. Much, a senior managing director of investment firm Houlihan Lokey Howard & Erwin. "Now it's truly an entertainment business." Says Tagliabue: "In 1989, I inherited a great structural underpinning, the equal sharing of TV money. We've added three new pillars to that: branching into new media, including satellite TV; creating a narrow band between player salary cap floor; and using our growing TV revenues to ensure that stadiums could be financed."

is evidence of the faster march into showbiz and the



THE FUTURE: YOUNG STARS
MICHAEL VICK OF ATLANTA
(ABOVE), NEW YORK JETS'
CHAD PENNINGTON (BELOW)



push into distribution, *BusinessWeek* has learned that the NFL will hire Steve Bornstein, 50, one of the architects of ESPN and a former top executive at Walt Disney Co., to be in charge of TV and media. Bornstein will also be CEO of a 24-hour, NFL-owned, digital cable channel devoted to football—though the only games shown will be classics. The channel, which will include news and commentary, will launch later this year.

Also in the works are plans to sell the league's rich archives through a video-on-demand service that will allow fans to watch old game footage for a fee. In addition, Tagliabue is expected soon to announce a deal with Time Inc. to put out an NFL magazine. And ESPN is nearing a deal with the NFL Films unit to help develop two original movies.

Unlike other leagues with big corporate owners such as AOL Time Warner, News Corp., and Walt Disney, no company has ever owned an NFL club. The league maintains that individuals care more about winning and corporations care more about their shareholders—not that there's anything wrong with that. NFL ownership groups are restricted to 25 people, with the principal owner holding at least a 30% stake. And an owner can borrow only \$125 million against the value of the team. By contrast, the free-spending lords of baseball were allowed to tap an MLB-backed loan pool almost at will—jacking up the teams' collective debt to \$3.5 billion today from \$593 million in 1993.

In the NFL, strict oversight ensures that the 32 teams equally divide about 63% of total revenues. That helps level the playing field when it comes to buying top talent. In fact, the combined revenues of the top eight richest teams is just 28% more than the eight teams on the low end. The NFL closely guards revenue and earning numbers, but it is widely believed that almost every team turns an operating profit. In baseball, by contrast, revenue is largely dependent on how much teams derive from local broadcasting contracts, not national deals. In 2001, the local revenues generated by the richest team, the New York Yankees, were \$218 million. The poorest team, the Montreal Expos, took in just \$9.7 million.

Jerry Jones, 60, the hands-on owner of the Dallas Cowboys since 1989 and one of the most aggressive businessmen in the league, takes the view that sharing revenue is all well and good but that teams need to seize their own marketing opportunities. In fact, the NFL has sued Jones over his aggressive local sponsorship deals. Still, Jones doesn't seem bitter and likens owning a team to acquiring a piece of art. "You're not going to see an inordinate amount of annual return on your money," he says. "It's all in the potential appreciation."

On the other hand, revenue guarantees have been swiftly driving up the value of an NFL franchise. In 2000, advertising executive Daniel Snyder, 38, shelled out a record \$800 million for the Washington Redskins and its stadium. Previous owner Jack Kent Cooke paid \$300,000 for a 25% stake in the 'Skins in the early 1960s. The newest owner is Arthur M. Blank, 60, the retired co-founder of Home Depot. Last year,

THE RESULT

\$4.8 BILLION (63%) divided evenly among 32 teams. Of that amount, there is a cap on how much can be spent on players' salaries and benefits—and a minimum that must be spent. In 2002, the cap was **\$55 MILLION** per club, the minimum **\$15 MILLION**. This system has created the most level playing field in pro sports.

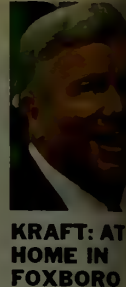
OTHER LEAGUES SHARE A LOT LESS OF THE WEALTH

LEAGUE	REVENUES 2002	PERCENT SHARED EQUALLY
NFL	\$4.8 billion	63%
MLB	\$3.5 billion	20%*
NBA	\$3.0 billion	35%
NHL	\$2 billion	9%

* WILL RISE TO 34% IN 2003



New digs, big game: "Is this cool, or what?" shouts Patriots owner Kraft



KRAFT: AT HOME IN FOXBORO

he spent \$545 million for the Atlanta Falcons, which had the league's second-lowest attendance record—an average of 52,000 a game. Previous owner Rankin M. Smith Sr. paid \$8.5 million in 1965.

GILLETTE STADIUM: TODAY'S GRIDIRONS ARE LIKE THEME PARKS FOR ADULTS

H. Wayne Huizenga, 65, owner of the Miami Dolphins and ProPlayer Stadium, used to own MLB's Florida Marlins and the NHL's Florida Panthers. After losing more than \$100 million collectively, he sold both. "[The NFL] is the only thing that makes sense in sports today," he says. Huizenga, who is chairman of several real estate companies and serves on the board of

has until Feb. 15 to renegotiate terms or extend the contract. Or it can just wait for it to expire in three years. "The networks are between a rock and a hard place because they are bleeding money, but they want to have the NFL as a platform to promote the rest of their schedules to the enormous audience," says Morgan Stanley analyst Bilo. ESPN will be the only one to make money on the current deal—an estimated \$50 million profit, according to Morgan Stanley—in large part because it can get revenues from both advertising and hefty fee increases it charges cable and satellite operators.

NBC, a unit of General Electric Co., walked away from football in 1998, refusing to cough up for new rights after years of broadcasting AFC (and earlier, AFL) games. One team, which in 1994 lost the NFC to Fox, won the AFC contract shelling out \$4.1 billion over eight years. Executives at NBC, who also passed on an NBA contract last year, say privately that they have no regrets. They estimate that the network would have lost upwards of \$1 billion if it had kept the NFL. "Look, says one network executive, "NBC was the No.1 network in terms of ratings when they walked away, and they still are. In other words, if you don't have it, it doesn't kill you."

The fear in NFL offices is that other networks, pressured by parent companies, will take the NBC line in three years. "Will the next negotiation be a difficult one? Sure," says Howard Katz, president of American Sports, home of *Monday Night Football*, which has struggled with declining ratings, though viewership was up 4% this season over last.

So Tagliabue is already talking to the networks about flexible scheduling that would allow last-minute switches to more competitive games on Monday night. An additional prime time game on Sunday is also under consideration. Such ideas aren't going over too well with Fox and CBS, which don't want to give up a daytime game to rival ABC/ESPN. The only certainty next time around, network executives say, is that there must be plans in place for a Los Angeles team (page 92).

More viewers, yes. But not a

Cover Story

THE NFL

AutoNation Inc., says the disparity of local revenues in baseball and hockey makes it impossible to compete if you're not in the TV-rich market of New York City. "I keep hearing about the Yankees dynasty. It makes me sick. Put me in that local TV market, and I would have had a dynasty, too," says Huizenga. He won't disclose the Dolphins' financials but says: "We do make some money."

One of the most important changes in the economics of the league has been new stadiums. "It's been the biggest transformation in the balance sheet of the NFL since I've been commissioner," says Tagliabue. With criticism of public funding for stadiums growing louder, the owners in 1999 authorized the league to go to Wall Street to sell bonds, the proceeds from which would be used to lend money for construction at low interest rates. So far, \$650 million in such loans has helped build or renovate eight stadiums, including Gillette Stadium in Foxboro, Mass., and Lincoln Financial Field in Philadelphia, which opens next season. Gone is the emptiness of yesteryear's cold concrete shells. The new stadiums—adult theme parks, really—create fresh revenue streams from sources such as luxury suites, club seats, high-tech signage, restaurants, and shops.

Still, the league faces sizable risks. More than 50% of revenues comes from the money television pays for the rights to show NFL games. The league is in year five of an eight-year, \$18 billion package with ABC/ESPN, CBS, and Fox. But all three are part of media compa-

BON JOVI: FOR THE NFL, NEW YORK CLOSED TIMES SQUARE



LESSONS FROM A LABOR LEADER

Gene Upshaw first encountered Paul Tagliabue in 1980 from a witness stand. He was testifying in a case brought by his boss, Oakland Raiders owner Al Davis, against the NFL. Davis had sued when the league refused to allow him to move the Raiders to Los Angeles, and Tagliabue was the league's lawyer.

These days, NFL Players Assn. Executive Director Upshaw and Commissioner Tagliabue still face off. But as caretakers of a labor agreement marked by unprecedented cooperation, they're downright chummy. Both call their "partnership" a model for any industry.

Recently, Hall of Famer Upshaw, 57, who played guard for 16 years in Oakland, talked with BusinessWeek Media Editor Tom Lowry about the secrets of labor peace.

You haven't had a player walkout since 1987, and you have extended your current collective bargaining agreement three times (through 2007). Why are 2,000 NFL players seemingly so content?

We agreed to a cap on salaries, sure, but at the same time we negotiated that about 65% to 70% of all shared revenues be designated for the players. That allows us to get a fair share of the pie.

Football, all the time. Talk about expanding the NFL's presence on TV fuels worries about consumers reaching a saturation point. "We're always concerned about commoditizing the NFL," says Chief Operating Officer Roger Goodell, 43, son of late New York Senator Charles Goodell and thought to be a leading candidate to succeed Tagliabue. "But we still see extraordinary demand for what we offer. It's the best reality going."

At the same time that the TV contract expires, so does the league's labor agreement. The NFL is widely seen as having the most favorable player deal in pro sports, with average salaries at \$1.2 million. True, the average NBA salary is \$4.5 million. But don't cry too hard for the footballers, any of whom get fat signing bonuses not figured into that average salary. Philadelphia Eagles quarterback Donovan McNabb, the league's highest-paid player, for one, will make 1.7 million this year, almost all of it from his signing bonus. While the salary cap has been instrumental in bringing parity to the league, there is a downside: Teams sometimes must cut veteran players, alienating fans.

Overall, though, the league has a highly dedicated following. Despite some erosion of support in the face of so many other

But don't salary caps do a disservice to stars who could earn much more?

The salary cap gives teams stability, and that's important. The annual median salary has gone up tremendously in recent years, to about \$560,000. The average NFL career is 3.2 years. So next time around, we're going to play hardball to get greater guarantees on contracts.

What is your working relationship like with the commissioner?

We will talk about three

or four times a week during the season. We both understand that it's in everyone's best interest to have a league that is well run. We don't want to blow a good thing.

Are the owners good businessmen, or are they in it for fun?

I know the owners didn't all of a sudden get dumb when they joined our league...[But] the way the NFL is set up, an owner really has to work at it to lose money.

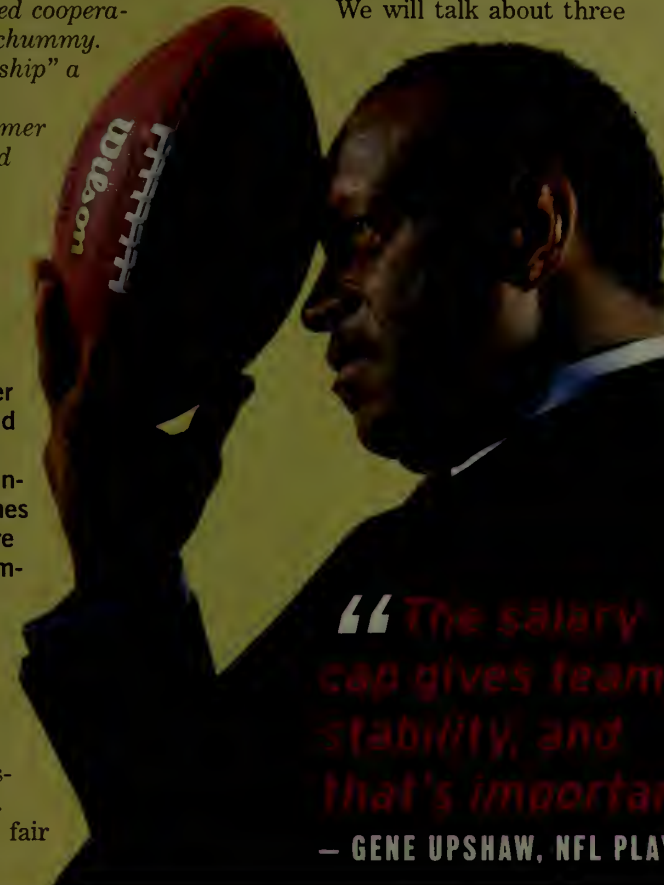
You're a member of the executive council of the AFL-CIO. What lessons can other managers and labor leaders learn from the NFL?

All labor leaders are concerned about wages, hours, and working conditions. But the one thing you have to have is that element of trust, a ton of understanding and truth. That's why the NFL owners let us audit their books.

If we didn't have [such] access...we'd be pissed off all the time.

Your current contract expires in 2007 in what will be your 24th year running the players group. Will you re-up?

When my current contract expires, I will retire. Look at this way: We've got a great product. It fits TV. It fits consumers. I'm sure all that will carry on long after Paul and I are gone.



“The salary cap gives teams stability, and that's important”

— GENE UPSHAW, NFL PLAYERS ASSN.

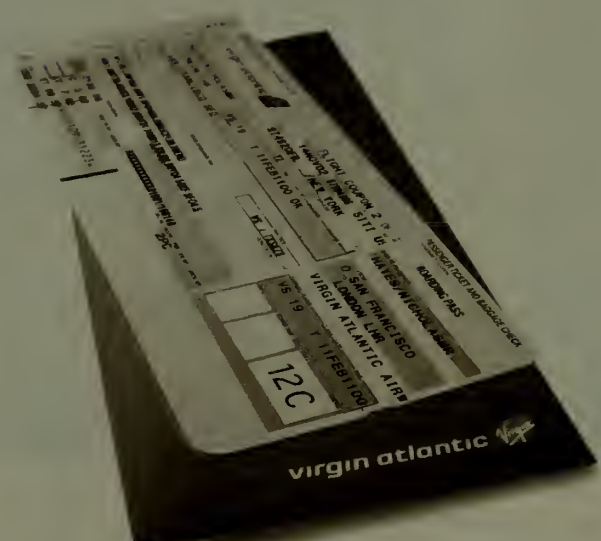
entertainment options, NFL fans remain the most loyal of any sport, followed by those of the NBA, then baseball and hockey, according to a newly released index from consultant Brand Keys Inc. One big reason so many are so hot for football is gambling. An estimated \$560 million is wagered on NFL games each year in Nevada alone, the only state where sports betting is legal. Estimates of illegal betting, of course, go into the billions.

To understand the roots of the NFL's powerful and enduring brand, you have to go back to 1960 when new Commissioner Rozelle, then 33, persuaded Washington to pass the Sports Broadcasting Act. That allowed leagues to sell broadcast rights as a package and gave them much more clout in negotiating favorable contracts. The first NFL deal was reached a short time later with CBS, which agreed to pay \$4.6 million, split among the teams.

Rozelle is credited with transforming modern sports by marrying games with TV, and needless to say, when he retired in 1989, his were big shoes to fill. The differences between Rozelle and Tagliabue, who was hired to replace him, could not have been more striking. Rozelle, a tanned Southern Californian and former PR man, had the gift of



CONNECT TRACK 12



AND ROW 12.

.NET connected software from Microsoft® lets your entire company anticipate and react to customer desire. How do you use the information your customers give you to offer the products they want? .NET connected software from Microsoft seamlessly ties together all your different systems, databases and platforms. So you can get a 360 degree view of your customers and better tailor everything you have to offer. To see how other companies are better connecting with customers, go to microsoft.com/customerknowledge **Software for the Agile Business.**

Microsoft®

L.A. FOOTBALL: IT'S STILL FIRST AND TEN

Down on the field of the Rose Bowl, Oklahoma was routing Washington State. But the real action during the New Year's Day classic in Pasadena was upstairs in a third-floor suite, where Southern California politicians and businessmen hoped to catch a different pigskin. There, Commissioner Paul Tagliabue was hearing why the NFL nation needs Los Angeles.

Passing the peanut dish to the commish is as about as close as L.A. has gotten to the NFL since 1995, when both the Rams and Raiders took their shoulder pads and headed out of town. Since then, there have been plenty of busted dreams—but no team.

The last formal bid for a franchise, by Hollywood agent Michael Ovitz and associates in 1999, came in a weak second to billionaire Robert C. McNair's record \$700 million deal for a team in Houston. Recently, Denver billionaire Phil Anschutz proposed building a \$400 million, 64,000-seat stadium. He pulled out, though, when other sites were mentioned, and city officials balked at



GOOD OLD DAYS: THE RAMS' ROMAN GABRIEL

helping finance his stadium.

Now, the notion of football returning to the City of Angels may be inching downfield. The reason? Money, of course: L.A. is fruit waiting to be picked. More immediately, there's pressure from the networks. NFL rat-

ings, though up last year, had slipped since 1998, when the league signed record \$18 billion, eight-year TV deal. That makes the addition of America's second-largest TV market crucial to new contract talks that open in 2001. The greater L.A. area, with over 10 million people, is 20th in ratings for ABC's *Monday Night Football*. "The NFL knows we want L.A.," says CBS Sports President Sean McManus. "And they want it just as badly."

Although it has been long thought that L.A. must woo a team from another city, like San Diego, Tagliabue doesn't rule out an expansion franchise. "I think the owners would agree to a 33rd team in Los Angeles, but only if that city," he told *BusinessWeek*. Tagliabue also suggests that plans will be in place by the time TV talks start. But squabbles over whether to renovate the Rose Bowl or build a new stadium, plus a lawsuit by Oakland Raiders owner Al Davis, who claims rights to L.A., could confound the commish. In this town, it's easier to win an Oscar than an NFL team.

By Ronald Grover in Los Angeles with Tom Lowry in New York

schmooze. Jersey City-born Tagliabue, who played basketball at Georgetown and had been the NFL's outside lawyer at the Washington firm of Covington & Burling, was seen as stiff and reticent.

But Tagliabue's methodical, lawyerly approach has served the league well, say those who have worked with him. He sweats every detail. His office in the NFL's Park Avenue headquarters in Manhattan is littered with yellow legal pads on which he often diagrams his strategies. And his interests extend well beyond the gridiron. In fact, the commish will actually read the front section of *The New York Times*, where his brother John is a highly regarded foreign correspondent,

before digging into the sports pages. A former Pentagon policy analyst during the Johnson years, Tagliabue is just as conversant

Cover Story

THE NFL

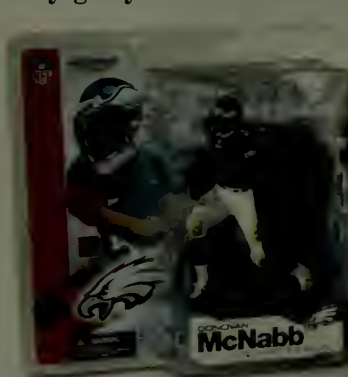
with America's Mideast policy as he is with the NFL's ban on the supplement ephedrine.

While Rozelle may have delivered the NFL to the media altar, it is Tagliabue who has made the union a lasting success. He studies the media, lunches regularly with Rupert Murdoch, and is a frequent guest of investment banker Herb Allen at his annual gathering of moguls. And with an annual salary and bonus totaling \$8.5 million, Tagliabue is indeed a member of the media elite.

Robert Kraft, who made his fortunes in paper and packaging and has owned the New England Patriots for nine years, is one of the beneficiaries of Tagliabue's innovative reign. Kraft's new Gillette Stadium, which cost \$345 million and was partially financed by the league's novel bond scheme, features two large clubhouses—sponsored by Fidelity Investments—that boast working fireplaces, chef stations, and several bars. There is a

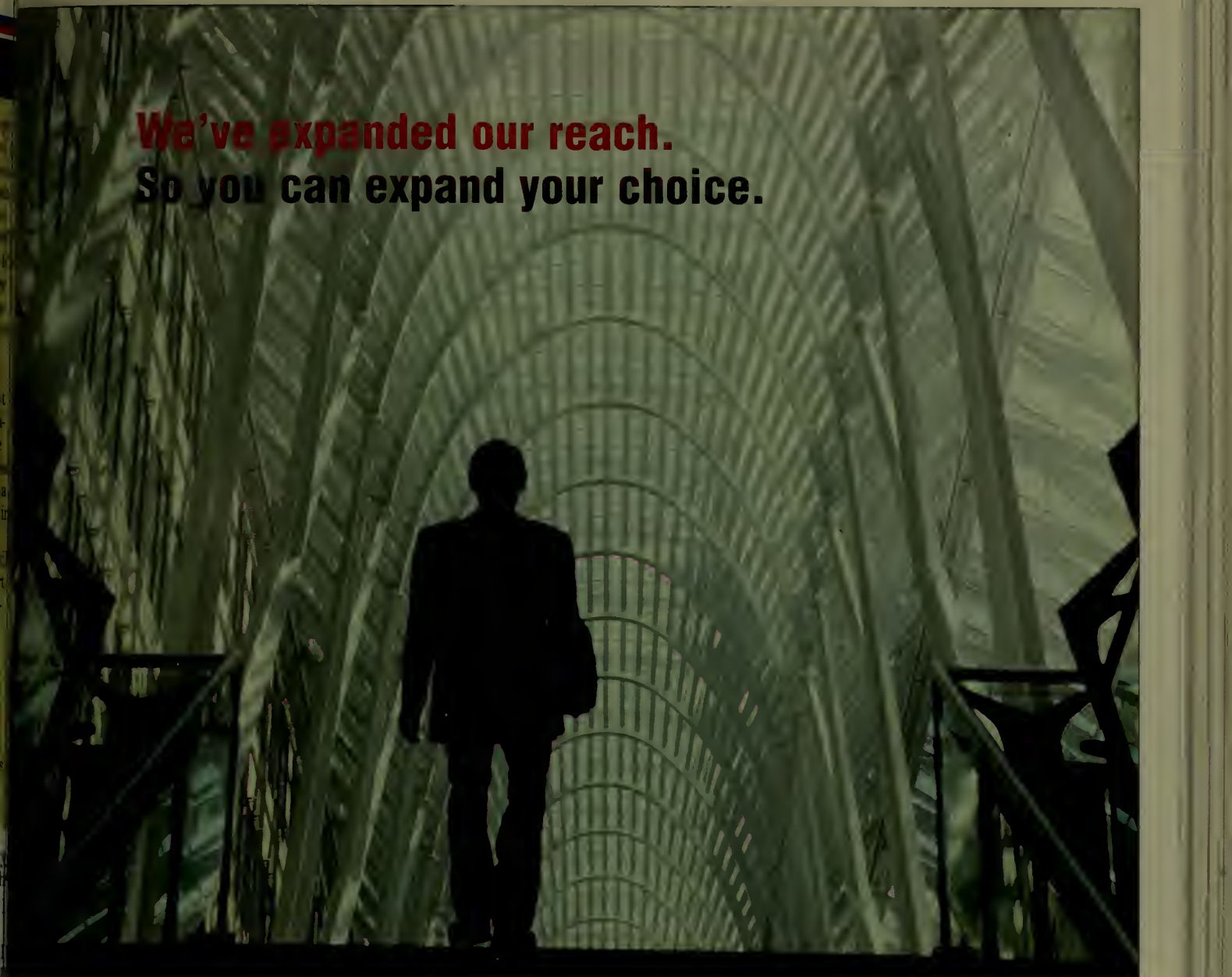
McDonald's above each end zone. The stadium has a capacity of 68,000, with 6,000 club seats in midfield that go for as much as \$6,000 apiece for 10 years. More than 50,000 fans have down a deposit to be on a waiting list for season tickets.

On the last weekend of the regular season, as the Super Bowl defending champion Patriots host the Dolphins in a game with crucial playoff implications, Kraft seems practically giddy. The sellout crowd is supercharged with adrenaline after fighter jets perform a scorching flyover timed to the last note of the *Star Spangled Banner*. Following the kickoff, the 41-year-old Kraft, who has open-heart surgery last summer, runs from the field to take his place up in the owner's suite. He gazes across what he calls "my new home," a far cry from the expanse of rickety aluminum bench seats at the old Foxboro stadium. As the Patriots contain the Dolphins on the first set of downs and the crowd roars, Kraft rises from his seat—a Caesar before his legions—waving his arms to signal: "Louder, louder." The stadium erupts, and smiling Kraft turns to a guest and like a schoolkid at his first game, shouts: "Is this cool, or what?"



ACTION FIGURE: EXTENDING THE NFL BRAND

The Patriots come from behind to beat the Dolphins in overtime. But a win later that Sunday by the New York Jets ends the postseason hopes of Kraft and New England. Emperor one minute, off the throne the next. That's the way it is in the frenzied, fast-money empire called the NFL.



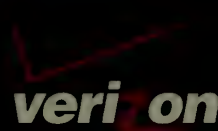
**We've expanded our reach.
So you can expand your choice.**

The Verizon Enterprise Solutions Group. Enterprise communications now come with another choice.

- Building on our position as the strongest metro area network provider in our markets.
- Expanding our reach of advanced voice and data solutions.
- Becoming a premier wide area network provider by connecting our long distance capabilities to our powerful local networks.
- Continuing our heritage of integrity, reliability and financial stability.

Now Verizon provides you a highly competitive choice. All to give your company quality, advanced communications that support your mission-critical business applications – locally, regionally and across the country. **verizon.com/enterprisesolutions**

©2003 Verizon. All rights reserved. Long distance (InterLATA) service provided by Verizon Select Services Inc. At this time, Verizon does not provide InterLATA service originating in, or InterLATA private line, toll-free or equivalent service terminating in AK, DC, MD and WV. Customers must obtain such InterLATA services in these states from non-Verizon providers.



verizon

Make progress every day

COMMENTARY

By Roger O. Crockett

MEMO TO THE SUPREME COURT: 'DIVERSITY IS GOOD BUSINESS'

Joseph Dominguez grew up in a blue-collar Cuban enclave of Union City, N.J. From that working-class 'hood, he went on to earn a law degree from Rutgers University, where his admission was clinched thanks to a program for minorities. Now, as an associate general counsel in charge of litigation at Chicago-based energy giant Exelon Corp., he brings new insight to legal issues that vex his white colleagues. For example, Dominguez, 40, often has a better grasp of how a jury made up of minorities might react to the company's defense in a trial. "He comes at problems in a way that I wouldn't have thought of on my own, which enhances my ability to do my job," says his boss, Exelon General Counsel Randall E. Mehrberg.

It's stories like this that help explain why more than 30 large corporations are sticking out their necks to support affirmative action in a pivotal case to be reviewed in the spring by the U.S. Supreme Court. For the first time since 1978, the high court has taken up a challenge to racial diversity programs in higher education in a pair of cases involving the University of Michigan. The Bush Administration is poised to weigh in, opposing the school's right to consider race in its admission process. But the companies, including Exelon, Microsoft, Bank One, General Motors, and Steelcase, plan to advocate for the defense with a new brief in mid-February.

The Administration and the justices should take heed of Corporate America's argument. These corporate chieftains are speaking out about such a hot-button social issue because they believe that as minorities' share of the U.S. population has

HOT-BUTTON ISSUE: The University of Michigan's affirmative action program goes before the Supreme Court this spring



mounted, diversity has become a critical workforce re-

quirement. The nation's colleges are an essential part of the pipeline that feeds new hires to large companies. On a campus where diversity thrives, students develop an understanding of different cultures. That enables them, as tomorrow's business leaders, to "appeal to a variety of consumers" and work with colleagues and clientele from many ethnic backgrounds, the companies argued in their amicus brief to the U.S. Court of Appeals. It also creates a more competitive workforce that can "facilitate unique and creative approaches to problem-solving," the brief said. Simply put, says Bank One Corp.

Chief Legal Officer Christine A. Edwards, "diversity is good business."

In its last major ruling on the issue, in the 1978 Bakke case, the high court said that strict racial quotas violate the equal protection clause of the 14th Amendment. But the court did uphold colleges' right to pursue diversity by considering race as one "plus factor" among others. Now, in Grutter v. Bollinger and Gratz v. Bollinger, rejected white students have challenged the flexible approach colleges have developed over the past 24 years. Their argument: that any form of racial preference violates their rights to equal protection, even if it's just one factor in the admissions decision.

The university's defense is that diversity is a "compelling state interest" and therefore outweighs the individual rights of white applicants. This is a powerful argument. The societal point of a college education isn't just to produce the smartest graduates. It's also to equip citizens with the skills required to thrive in a competitive environment. Race is a legitimate factor to consider, along with grades, test scores, and extracurricular achievement. It's part of the template that shapes an individual, qualifying the way he or she approaches problems, conceives ideas, and communicates. "A diverse college environment is a much better setting for preparing graduates for life in business," says Steelcase Inc. CEO James P. Hackett.

The court should ponder the corporate view carefully against competing voices. If it doesn't, business leaders rightly worry that affirmative action plans could be curtailed further—or even killed. The outcome would be a smaller supply of minority college grads, which would damage the economy and society alike.

Crockett covers social issues from Chicago.

“In the opinion of amici, individuals educated in a diverse setting are more likely to... [have] the ability to facilitate creative approaches to problem-solving... [and] are better able to develop products and services that appeal to a variety of consumers”

— Excerpt from the amicus brief submitted to the U.S. Court of Appeals on behalf of more than 30 companies

Now that you share
so many of the
same challenges,
the time has come
for you to share the
same conference.

BusinessWeek

| *Events*



The BusinessWeek CFO+CIO Forum
Collaborative Thinking for Business Excellence

me join us as we take collaboration to a higher level. This is a rare opportunity for
Os and CFOs to interact, network, and share ideas. All in a world-class setting.
o register, call **800-510-2901** or visit www.businessweek.com/cfocio.

ed by

Sponsored by

With support from

McGraw-Hill Companies

hosted by Enterprise Florida

 **BearingPoint**

 **MERCURY
INTERACTIVE**

 **sas**

 **VERITAS**

 **RHR**



HelloMOTO

WINNING IN CHINA

Can Motorola hang on to its top spot as local rivals come on strong?

It's a wild night at the old Exhibition Center in Shanghai. The Soviet-style palace, dating from the glory days of Moscow's friendship with the People's Republic, is the unlikely setting for a gala launch of new cellular phones from Motorola Inc. Outside the hall, white Motorola balloons flutter in the brisk winter air, while purple and red spotlights project the company's logo and Chinese slogan, Nihao Moto (Hello Moto), on the building's pillared facade. Inside, hundreds of guests listen to popular tunes, watch movie trailers, and play games—all on shiny new Motorola phones. Then it's time for a banquet of shark's fin soup and other Chinese deli-

cacies while fashion models showing off Motorola handsets strut across the stage to a steady rock beat.

Quite a show—and a symbolic leap into the future for the American high-tech icon. The January event marked the first time Motorola has launched a new global product line in Asia. The choice of China should come as no surprise. As the world's largest cellular market, with 200 million subscribers, China is the marketing fixation of every company in the industry. And Motorola was a China pioneer. Current Chairman Christopher B. Galvin first visited Shanghai as a rising exec and met with Jiang Zemin—then a little-known local party functionary, now China's President—in 1986. The U.S. giant has been nurturing the Chinese market ever since, investing \$3.4 billion in manufacturing and research and development facilities there, more than any other Western company.

That commitment has paid off. Motorola sells more cell phones than anyone else in China: nearly 17 million in 2002, according to market researcher Adventis Corp. Last year, Motorola manufactured telecom and other equip-

ment valued at \$5.7 billion in China, selling roughly \$2 billion worth abroad, making it one of China's top exports. Some 20% of the company's \$26.2 billion 2002 revenue came from China, according to brokerage Bear, Stearns & Co., and Motorola executives confidently predict sales will continue to increase at double-digit rates.

Even more important, analysts say, Motorola is profitable in China. And it's growing faster there than anywhere else—big news for a company that has been languishing in the red and is expected to eke out just a small profit globally in 2002. "China has been great for Motorola," says Mike S. Zafirovski, the company's president and chief operating officer, who flew into Shanghai for the bash. "It's very much a bright spot."

But no number of sultry fashion models, flashy billboards, or shark fins can hide the fact that the bright spot may soon start to dim. Archrival Nokia has poured \$2.4 billion into China and has a giant complex making cell phones and components near Beijing. Korea's Samsung Electronics is benefiting from looser regulations following China's 2001 entry into the World Trade Organization.

THE COMPANY IS BETTING ON STYLISH NEW MODELS THAT CAN BETTER HANDLE CHINESE-LANGUAGE TEXT MESSAGES

company can't afford. Outside China, key customers for Motorola's networking gear—wireless operators such as Europe's T-Mobile International and Verizon Communications in the U.S.—have slashed spending dramatically. Motorola's infrastructure business throws off so little profit that company execs floated the idea of selling it. Its semiconductor group, though recently reorganized, isn't doing much better. The bottom line: Investors have pushed

Motorola shares down 60%, to \$9.30 a share, over the past two years. No wonder China, the source of 30% of its handset sales, is a beacon for the company. "This is our most important market," says Scott A. Durchslag, Mo-



Motorola has agreed to work with the very companies that are eroding its top position in handsets

torola's corporate vice-president for strategy and business development.

Yet Motorola has made some recent missteps in this key market. The company made headlines with a \$1.5 billion semiconductor plant in Tianjin to make phone-handset chips, even though many questioned the fab's economic viability. The facility was to be one of the most advanced chipmaking factories in China. Now, due to slack global demand for chips—and a glut of capacity—the company has been slow to ramp up manufacturing at the completed plant. "It's prudent to wait until we have something tangible" in terms of demand, says Joe Steinberg, Tianjin-based vice-president and general manager of Motorola's China chip division.

The chip plant is crucial to Motorola's plans to deepen its roots in China. The company already employs some 1,300 Chinese engineers doing research for products such as mobile-phone handsets

and semiconductors for PCs. Motorola is also hiring more local designers, since China's millions of cellular subscribers are growing increasingly savvy and trend-conscious. "The Chinese have become very knowledgeable about phones," says Brian Holmes, Motorola's senior director for product marketing in China. "They do their homework."

So Motorola is introducing models with more flair. Analysts have criticized

Motorola's Chinese phones as technology winners with ho-hum design, especially when compared with the offerings of local rivals. TCL International Holdings, a manufacturer in Guangdong province, features a diamond-encrusted handset. Eastcom, a state-owned enterprise near Shanghai, sells

a \$425 phone that's covered in specially treated fish skin.

To fight back, Motorola now sells a faux-diamond-studded handset of its own. And it's hoping mainland consumers will fall for phones that can better handle Chinese-language text messages and double as karaoke machines or e-books—innovations that local rivals have a hard time matching. "In the past, Motorola's reputation was more for good quality," says Tim Chen, chairman of Motorola's China operations. "Now it's much more trendy." Of the 20-plus new models that Motorola will launch in China this year, at least a dozen will be phones that can send and receive photos, says Brian Lu, Beijing-based vice-president and general manager of Motorola's Greater China handset group. Lu vows that such products will tame the wild ambitions of Motorola's local rivals. "It will be dif-

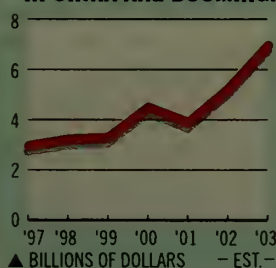
Even more ominous for Motorola is new competition from local Chinese handset makers. They had less than 3% of the market as late as 1999 but today control some 26%, according to Adventis Group PLC. Meanwhile, Motorola's market share slipped to 28% last year, from 31% in 2000.

Motorola is in little immediate danger of losing its lead in China, but there is denying that local rivals are coming strong. Many Chinese companies plan to double or triple their capacity, flooding the market with handsets and driving down prices. In the past year alone, the average price of a phone in China fell by 10%, to \$170, according to Beijing-based person Telecom Consulting. "If the local players get too much market share, that could put huge pressure on Motorola," says Bear, Stearns analyst Wojtek Sadelewicz.

That's pressure the

CHINA ADVENTURE

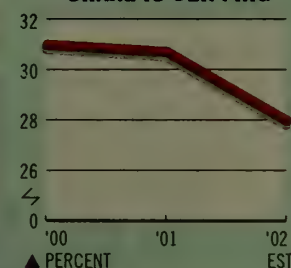
MOTOROLA'S SALES IN CHINA ARE BOOMING...



...AND ARE GROWING IN IMPORTANCE...



...BUT ITS HANDSET MARKET SHARE IS SLIPPING



MOTOROLA CHINA'S CHEN



Data: Motorola Inc.; Bear, Stearns & Co.; Adventis Group PLC

Information Technology

difficult for them in the long haul," he says. "They don't control the technology. They don't control the R&D."

Yet the Chinese may be stronger than Lu thinks. Take Ningbo Bird Co., a Chinese mobile-phone manufacturer that is currently ranked No.6 in China but is growing at a torrid pace. Ningbo Bird last year made more than 7 million phones and has just opened two new factories that nearly triple its capacity. Furthermore, even though Ningbo Bird has in the past relied on others for its technology, it's boosting its R&D and designed 15% of the phones it made last year. With all that capacity, Ningbo Bird will be looking to markets beyond China. "The competition will be even more intense, so we have to export," explains Ma Sitian, the company's deputy general manager.

That's what should scare Motorola the most. Virtually every product made in China—from sneakers to DVD players—quickly drops in price as manufacturers gain scale and low-paid workers churn out goods by the container-load. At the same time, even as demand for phones continues to climb in China, the



rate of growth is slowing. So, like Ningbo Bird, other Chinese rivals will begin selling their phones abroad, potentially hurting Motorola's sales worldwide.

Team Motorola is determined to stay ahead of the game. So Motorola has hatched a strategy that executives dub "Two plus three plus three." The "two" refers to Motorola's primary operations in China, manufacturing and R&D. The first "three" refers to the businesses Motorola wants to expand in China: semiconductor production, broadband equipment, and digital-trunking networks (the mobile-communications systems

HOT RIVAL

Ningbo Bird is boosting R&D and design

used by police and taxi-ers). The final "three" refers to targets Motorola has set for year-end 2006: \$10 billion worth of production in China, \$10 billion worth of components in the country, \$10 billion in direct or indirect investment by Motorola and its partners. In short, the company wants to cut costs via

sourcing and boost its strength in areas where there are fewer competitors about Chinese rivals flooding the market with me-too products.

A critical part of Motorola's strategy is to show Beijing its commitment to the Chinese economy. "We take pride in viewing ourselves as a very local company in China," says COO Zafirov. And since Motorola isn't blind to Beijing's desire to boost China's science and technology prowess, it recently announced a \$100 million expansion of its R&D center in the capital. "There is a lot of trust on the Chinese side because Motorola has put a lot of investment into the country," says Chris Watts, an analyst with Norson Telecom Consulting.

Motorola is even prepared to work with the companies that are eating away at its top position in handsets. Motorola has agreed to sell chips for cell phones to TCL Eastcom. As a bonus, if Motorola can get local manufacturers on its customer list, the Tianjin chip maker might see enough business to get production lines running full-bore.

Even as local rivals nip at its heels, Motorola's Chinese adventure has been a great success. Motorola "is well established, and it will take some time to dislodge them," says Duncan Clark, an analyst with Beijing-based telecom consultant BDA China Ltd. Given the threat to Motorola's market share in China, though, the company has to keep moving—especially in light of its history elsewhere. Bear Stearns estimates that since the mid-'90s, Motorola's market share in handsets has slipped from about 50% to 30% in the U.S. and from more than 30% to less than 10% in Europe. In the context of those setbacks, China is the gamble Motorola has to win.

By Bruce Einhorn in Shanghai, w
Dexter Roberts in Tianjin and Rog
O. Crockett in Chicago

HANDSET COMBAT

Global players dominate the Chinese mobile market—the world's biggest—but scrappy locals are growing fast

MOTOROLA

The longtime leader in China is now trying to create a hipper image to woo young buyers.

Market Share

28.0%

NOKIA

Has invested more than \$2.4 billion in China, but it doesn't make newly popular CDMA handsets there.

Market Share

22.4%

TCL

Chinese TV maker has only made handsets since 1999 but is rocketing up the charts.

Market Share

8.1%

SIEMENS

Made 13 million phones in Shanghai last year and now has R&D center in Beijing.

Market Share

6.9%

SAMSUNG

Gaining ground thanks to strength in CDMA. Has partnership with Guangdong-based China Kejian.

Market Share

6.3%

Data: Adventis

NINGBO BIRD

Chinese upstart built 7 million phones in 2002 and has just tripled its production capacity.

Market Share

4.4%

Developments to Watch

TED BY OTIS PORT

W YOUR CAR N COACH YOU RING SKIDS

TER DRIVING CAN BE
uchorous. Hitting a patch
black ice can mean a quick
into the ditch. And when
h snow is falling during
daily commute, even care-
drivers can find them-
es struggling with a skid.
lost drivers know they
uld turn the wheel into a
l to prevent a spinout.
the real challenge is
owing when to turn the
eel back, and by how
ch, to avoid fishtailing
k and forth. Researchers
New York's University at
ffalo figure that's where
hology can help. A team
by mechanical engineer
unraj Singh has already
veloped a system that
ows precisely what needs
be done, given the speed
angle of a skid and the
ition of the steering wheel.
The question is: how to
vey this information quick-
to the driver? So far, the
m has tested video vs. au-
cues. Drivers in a car
ulator had trouble follow-
instructions relayed by
aking lights, probably be-

LYME DISEASE: A NEW TACK ON TICKS

PRESERVING BIODIVERSITY MAY BE AN EFFECTIVE WAY TO fight Lyme disease and other bug-borne afflictions, say scientists at the Institute of Ecosystem Studies, a nonprofit research organization in Millbrook, N.Y. Working in the surrounding woods, biologists Kathleen LoGiudice, Richard S. Ostfeld, and their colleagues tested ticks found on various species of birds and mammals for Lyme disease, then calculated the contribution of each species to the total population of infected ticks.

It turns out that in areas with high biodiversity, the ticks feed on many species that may be infected with Lyme but don't easily transmit it, leaving the ticks disease-free. White-footed mice are an exception—they readily pass Lyme to the ticks. Where woods are cleared, or diversity is otherwise degraded, these mice are among the last species to disappear. So they become the main food source for ticks, which pick up the disease and pass it to humans. Less biodiversity, in other words, means more Lyme disease, the scientists conclude, in a report in the *Proceedings of the National Academy of Sciences*. They hope to expand their study to six states. *Neil Gross*



cause they were too busy watching the road. In contrast, when guidance on how to turn the wheel came in the form of beeping sound signals, all the drivers were able to regain control.

Singh, however, feels that

tactile cues from vibrations in the steering wheel might be better still. To determine if that is so, he's seeking additional funds—either from Honda, which has sponsored the research to date, or from another auto company. ■

INNOVATIONS

Will the next kitchen ap-
pance be a steak grower?
t soon. But researchers
ded by NASA are growing
meat, chicken, and fish in
laboratory cultures—offering
pe that astronauts spend
months in space will one
iv be able to enjoy fresh
eat. The Dec. 30 issue of
w *Scientist* reports that
ree university teams are
rking on cultured meats.
owing whole steaks in
staurants is not on
e near-term menu.
e researchers can't
ep the cultured

meat alive long enough to reach that size. So low-fat hamburger, sausage, or sesame chicken could be the first slaughterless entrées.

■ Newfangled vegetables are also in the news. Scientists at Jawaharlal Nehru University in New Delhi have added a gene to potatoes from amaranth—a high-protein plant

that is sometimes added to commercial flour blends. The result—some call it a protato—has 30% more protein than garden-variety potatoes.

■ Not every agricultural advance requires gene modification. Researcher Paul Brown leads a Purdue University team that is developing foods for fish that boost the amount of omega-6 fatty acid in their flesh. These fats are thought to help prevent cancer and diabetes. Brown hopes the advance will spur the growth of fish farming and relieve pressure on the seas' dwindling stocks.



DO MICROBES KEEP PRIMING THE OIL PUMP?

PRIMITIVE LIFE TURNS UP IN the strangest places. Recent discoveries suggest the earth holds vast, unexplored realms of biological resources—mostly single-celled creatures—that could be tapped for drugs and biochemical products. These microbes might also help validate exotic theories about how oil is formed, and where.

The latest evidence comes from 1,000 feet below the seabed off the coast of Oregon. Drilling in supposedly solid rock, a team led by scientists from Oregon State University found microorganisms that metabolize hydrogen, sulfides, and other unlikely substances. The researchers report in the Jan. 3 *Science* that subterranean life permeates cracks in the basalt that solidified from lava 3.5 billion years ago to form our planet's crust.

It's not the first time that drilling rigs poking deep into the earth have pulled up microorganisms. But initial discoveries of microbial life—and traces of oil—at depths as great as 4.8 miles were dismissed as accidental contamination from the surface. Now, just about any place that scientists drill, they find life.

Indeed, Cornell University physicist Thomas Gold, who began drilling for life in the 1980s, figures there's more life beneath the earth than above it. He also believes that oil itself is produced by these life forms from methane bubbling up from the planet's molten core—not from ancient forests or plankton. His controversial theory got a boost in August. Simulations by Houston's Gas Resources revealed that oil forms at depths far below oil wells. The Earth may prove to be a giant petrochemical pump. ■

PERSPUDE? A protein
cost is coming

DEFENSE

GUERRILLA SHIPS FOR A NEW KIND OF WAR

The Navy is preparing for battles closer to shore

Last summer, in the Pentagon's biggest war game ever, an invasion fleet heading for a fictional Middle East nation got soundly trounced in the Persian Gulf. The mighty U.S. Navy was no match for the wily Saddam-like dictator, played by retired Marine Lieutenant General Paul Van Riper. He ruthlessly sent swarms of explosives-laden pleasure boats and old propeller planes on suicide attacks. Together with a few outmoded Silkworm antiship missiles from China, the small boats and planes sank 16 U.S. ships—including the fleet's aircraft carrier and other vessels carrying thousands of marines.

The Navy brass have long been leery of the threat posed to its big ships by antiship missiles and by swarms of little boats in "brown water," meaning close to shore. Years before the suicide-boat attack on the destroyer USS Cole in October, 2000, some Navy officials wanted to develop smaller, faster war boats for brown-water battles.

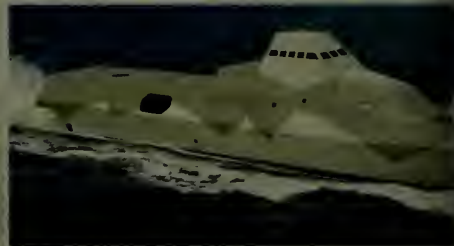
Dubbed Streetfighter, the concept was championed by Vice-Admiral Arthur K. Cebrowski, who now heads the Pentagon's new Office of Force Transformation.

The idea ran into widespread opposition, however. Critics fretted that the little ships would suffer high casualties, which might make the

Navy less attractive to new volunteers and undermine congressional support. Novelty was also a liability. For more than a century, the U.S. Navy has been geared to fight on the high seas. And in those deep, blue waters, bigger is better. "Zipping around in souped-up speedboats is not what the Navy has done," says military analyst John E. Pike, head

of GlobalSecurity.org in Alexandria, Streetfighter advocates countered that the U.S. lost its last blue-water rivalry decade ago with the collapse of the viet Union. Today, many naval officials doubt there will ever be another deep-ocean slugfest like those in World War II. The Navy's main task now is supporting ground forces and peacekeeping missions—which means getting close to shore because naval guns currently have a range of only 13 miles. In shallow brown water, big ships are sitting ducks. In less than a minute, an antiship missile can whiz from land and smash a ship several miles at sea.

The advocates won. And the Navy may soon get its first Streetfighter called a Littoral Combat Ship (LCS). Contractor teams recently submitted 10 design concepts to the Pentagon, and next month, the Defense Dept. will pick three designs for further refinement. The ultimate winner could go into production as soon as 2005.



SWEDISH MODEL
Northrup Grumman's proposal resembles this ship (left and above) by Kockums

duction as soon as 2005. Defense Secretary Donald Rumsfeld, also a proponent, and Cebrowski have pointed out that the LCS could allow a significant expansion of today's 31-ship Navy without substantially raising costs. They want to buy 50 to 70 of the new warships at less than \$220 million a pop. That's about a quarter of the price tag for new destroyers. And some of the new designs might be cheaper.

The LCS concepts are believed



'BROWN WATER' VS. THE DEEP BLUE SEA

With ocean slugfests a thing of the past, the Navy's main job is supporting land battles and peacekeeping missions. So the Pentagon wants ships that are:

Small Roughly half the size of today's 500-foot destroyers—or maybe closer to the 80-foot PT boats of World War II

Speedy Capable of at least 55 mph (50 knots), using new propulsion technologies

Smart Networked to combat-control computers on big ships with links to robotic planes, mini subs, and small speedboats

Stealthy Fitted with slanted, radar-absorbing panels to thwart guided missiles

range in length from about half the size of a 500-foot destroyer down to the size of the PT boats of World War II. But they won't look like anything in today's fleet. Above its deck, the mini-destroyer proposed by Northrop Grumman Corp.'s team resembles an F-117 stealth bomber—and its deck is a durable composite-plastic hull. It's modeled on the Visby-class ships that Sweden's Kockums is building for the Swedish Navy. How important will stealth be in brown water? "We're trying to determine that right now," says Admiral Donald P. Green, the Navy's deputy director for surface ships. With a vessel that can wade through the waves at 50 knots (55 mph) or more, he says, perhaps some of the extra cost of slanted, radar-absorbing panels can be traded for more ships. Other proposals are equally unconventional. The team led by General Dynamics Corp.'s Bath Iron Works envisions a trimaran hull adapted from a high-speed ferry being built in Australia by Austal Ltd. And Lockheed Martin Corp.'s group probably offered a catamaran patterned after its 105-ft. prototype Sea Slice vessel and a bigger, 310-ft. cargo ferry built by Australia's International Catamarans (Incat) Tasmania. The Navy is "being challenged to think differently," said Chief of Naval Operations Admiral Vernon E. Clark at a naval-warfare symposium last October. "It's a different time."

New computer technology is helping to win over some former opponents. The Navy began developing a computerized combat network more than a decade ago, aiming for the integration of military sensors, which proved so effective in Afghanistan. Its Cooperative Engagement Capability (CEC) system, built by Raytheon Co., is already deployed on more than 20 big ships. So, when surface fighters take to the waves, CEC could help them outfox opponents. Their opponents would get real-time intelligence gathered by radar on big ships farther out to sea, by video cameras and other sensors on manned and unmanned aircraft overhead, and by robot submarines and speedboats—also under development—that will go in harm's way without endangering sailors.

Analyst Pike says he's fascinated by the whole issue of revamping the Navy's near-shore duty. "But the fundamental question," he adds, is whether the Navy can scuttle "its big-ship mindset." If it does, Streetfighters might provide a brown-water punch that could prevent real-world disasters such as the Navy's make-believe one last summer.

By Otis Port in New York and Stan Rock in Washington

The Corporation

STRATEGIES

DUPONT TRIES TO UNCLOG A PIPELINE

Can it move new products out of the lab faster?



SHAKING THINGS UP: Connelly must bring in more revenue from new products

Whether it was the creation of nylon in the 1930s, Lycra in the 1950s, or environmentally friendly herbicides in the 1980s, chemical giant DuPont has a history of developing products that become big moneymakers. This is, after all, the company that got started because its founder figured out how to make a better batch of gunpowder back in 1802.

Yet in the past decade, DuPont's innovation machine seems to have shot mostly blanks. Other than a drug for high blood pressure developed by its now-divested pharmaceutical unit, few big sellers have emerged from the company's \$1.2 billion-a-year research and development operations. DuPont simply diverted too many resources to projects aimed at boosting productivity in existing businesses rather than developing new projects. And a failure to read market demand in some key areas, particularly in the agricultural biotechnology field,

led to missed opportunities and questionable investments. "It's been a huge amount of money expended and very little visible output," grouses Nicholas Redfield, equity analyst at Banc One Investment Advisors, which recently held about 1.4 million DuPont shares.

DuPont needs some of its old-time R&D firepower—quick. In 2001, it sold off its drug business when it realized it was too small to compete effectively against giants such as Merck & Co. and Pfizer Inc. DuPont wildly overpaid, analysts say, for a new seed business, while its ag biotech operations have yet to live up to expectations. Meanwhile, DuPont has said it will divest some big businesses, such as nylon and polyester, that total about 25% of sales but are low-margin commodities. Nylon, for instance, now yields estimated aftertax operating margins of only 2%.

Now DuPont chairman and CEO Charles O. Holliday Jr., who took the

R&D spending once went mainly to improve existing products. Now the potential for sales growth is a key factor

helm in 1998, hopes that a rejuvenated R&D operation can boost growth. He elevated a DuPont lifer, Thomas M. Connelly Jr., to head the operation in the fall of 2000. Connelly, who started as a researcher, most recently ran DuPont's big fluoroproducts operation. Holliday has promised that products introduced in the last five years will account for one-third of revenues by 2005, up from 24% now. That is critical if DuPont is to

ford C. Bernstein analyst Graham Copley. "I'm just not convinced we'll get enough [new products]" to make a big difference.

This year, earnings from continuing operations, minus one-time items, should increase 18%, to \$2.25 billion, on 5% higher sales of \$27.4 billion, says Copley. But that's coming off a depressed base. Profits in recent years were hammered by high energy prices and a weak economy.

big mistake." The split is now about 50, and the goal is to spend about 50% on new products.

Connelly is also focusing DuPont research more carefully. His team identified 75 projects that have the highest revenue potential. One of them is Suprel, a lightweight and puncture-resistant fabric that will be used in gowns for surgeons and nurses.

A. Gettelfinger, global marketing manager for medical devices, says DuPont gave her the sources to move Suprel from concept to marketed product in just three years.

IN THE LAB: Scientists haven't hit a "home run" in years

product hits the market this quarter.

But DuPont needs more than speed. It must also, say its critics, learn to correctly read the markets it wants to serve. Back in the late 1980s, for example, DuPont was one of the first to come up with a machine for sequencing DNA. That could have been a huge business, but the company never managed to commercialize it. And after paying \$9 billion for seed company Pioneer Hi-Bred International Inc. in the late 1990s, development of new genetically modified seeds ran up against a major consumer backlash, especially in Europe. That has stalled development of some transgenic seeds that grow more nutritious crops. "Their science is superb. But they misread the market," says Gene Pisasale, senior investment officer at Wilmington Trust Corp., another big shareholder.

No surprise, then, that Connelly is pushing DuPont to work more closely with its customers. Two years ago, one of its teams developed a more durable and eco-friendly clear spray coating for DaimlerChrysler's Dodge Durango. DuPont Product Manager David Wood says the auto maker needed a new coating to help meet stringent air pollution requirements in Delaware, where the car is made. DaimlerChrysler was pleased, and now DuPont is talking to other carmakers about using it. Bernstein's Copley figures the coating could yield up to \$100 million in annual sales.

That is a sign of progress. But Connelly needs to prove DuPont can regularly repeat that success. DuPont has long had the science. Now it must develop the commercial savvy to match it.

By Amy Barre
in Wilmington, Del.



OVERHAULING DUPONT'S CREAKY R&D MACHINE

THE OLD WAY...

- Two-thirds of R&D dollars went to productivity improvements on existing products
- There was little central oversight to identify and develop the best new products
- DuPont often failed to accurately gauge market demand for new products

...AND THE NEW

- New products get half the budget, and DuPont wants them to eventually get two-thirds
- DuPont has selected 75 of the best opportunities to receive major R&D funding
- Researchers work closely with customers from the earliest stages of new-product development

meet its long-term goals of 6% revenue growth and 10% profit growth. "We can't get there without it," Holliday says.

Connelly's plan is to deliver a steady stream of new products—a lot of singles and doubles—while hoping for a grand slam along the way. Among the products so far: a new fabric for use in hospital operating rooms, a new form of auto-paint coating, and a new generation of fuel-cell components. The company figures such projects can generate north of \$30 million in annual sales on average, but it will need a lot of those hits to meet the targets Holliday has set. "I like what they are doing," says San-

ford C. Bernstein analyst Graham Copley. "I'm just not convinced we'll get enough [new products]" to make a big difference.

Indeed, income from continuing operations in 2003 won't even match the \$2.9 billion recorded in 1998. DuPont shares, at \$44, are down 26% since Holliday took over in early 1998, vs. a 5.5% drop in the Standard & Poor's 500-stock index. To rev up the product pipeline, DuPont is reallocating its research dollars. Throughout much of the 1990s, two-thirds of its R&D budget went to improve productivity at existing units. Only about one-third was spent on new products. "That was a short-term move to get earnings up," says Joseph P. Glas, who retired four years ago as vice-president for life sciences research. "It was a

COMMENTARY

By Jennifer Merritt

WHY ETHICS IS ALSO B-SCHOOL BUSINESS

All right. So I wasn't selected to serve on the Blue Ribbon Commission on Public Trust & Private Enterprise, the group of executives and policy makers charged with recommending cleanups for accounting, corporate governance, and ethics. After all, it includes such luminaries as Paul A. Volcker and Andrew S. Grove. But if Paul, Andy, or any of the 12 members had asked me, I would have taken one clear shot: To clean up ethics in corporations, you have to start at the beginning of a career. Business school, that is.

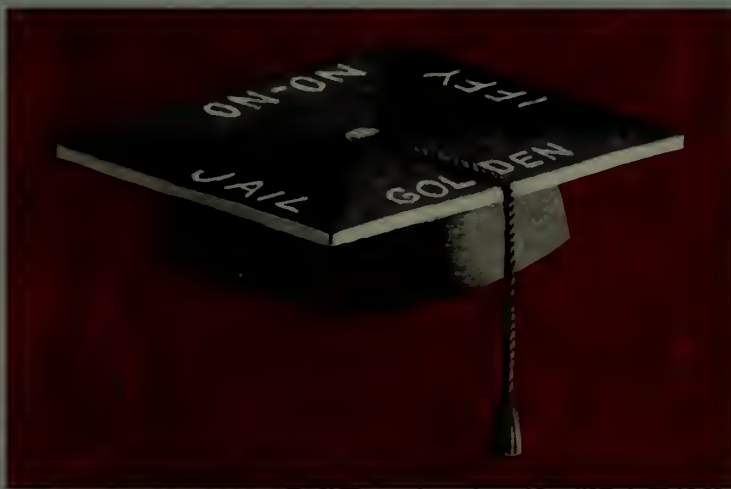
At first glance, it might seem obvious: B-schools, like the corporations their grads work for, must do more to promote ethics—everyone says so. And nearly all MBA programs—and increasingly, undergraduate business programs—have added ethics

courses to their curriculums, dating back to scandals such as the savings & loan crisis. But a class here and there isn't enough to set future managers on the straight and narrow. "Management education really needs to look at itself," concedes Lynn Sharp Paine, commission member and Harvard Business School professor.

B-schools shouldn't let the momentum for reform fizzle like some MBA fad. They need to make bigger investments in ethics research, do a better job of screening MBA applicants, and put pressure on corporate partners to support long-term efforts in ethics. In other words, B-schools need to prove they mean business.

■ Invest in ethics. For starters, schools should ratchet up the study of business ethics—not just the consequences of scandals but also positive examples and everyday ethical choices inherent in the lives of managers. Existing research on corporate ethics pales in comparison with that of, say, marketing or strategy. Case studies—the cornerstone of MBA education—number only in the hundreds for ethics, not the thousands, as they do for other subjects. With only a hand-

ful of academic journals to showcase ethics, professors facing the publish-or-perish imperative have little incentive to tackle the subject. That leaves scant material for MBAs to mull over in class. "We are facing new realities, and for that we need a new body of knowledge," says Dipak C. Jain, dean of Northwestern University's Kellogg School of Management.



Translation? Professors who want to research ethics should be supported financially by deans, who in turn could encourage up-and-coming scholars to pursue ethics as a PhD track. (Now, most professors take on ethics as a secondary discipline.) New research, in turn, should be quickly integrated into courses such as finance and strategy, not just make a cameo appearance in Ethics 101.

■ Sift for bad apples. Students, too, have to be up to snuff. Top MBA programs accept fewer than 15% to 20% of applicants, a high bar for entry. Even so, more schools than you might think end up expelling students, often for cheating, lying on their application, or other ethical inflections. Kellogg and Wharton say they dismiss up to five students

yearly for such behavior. If five are caught, how many squeak by? These borderline-types head straight for Corporate America.

So here's a thought: Find the bad apples before they come to campus. Application essays can be coached or plagiarized. A résumé can be stretched to the edge of truth. Even interviews can be misleading, with best behavior on display.

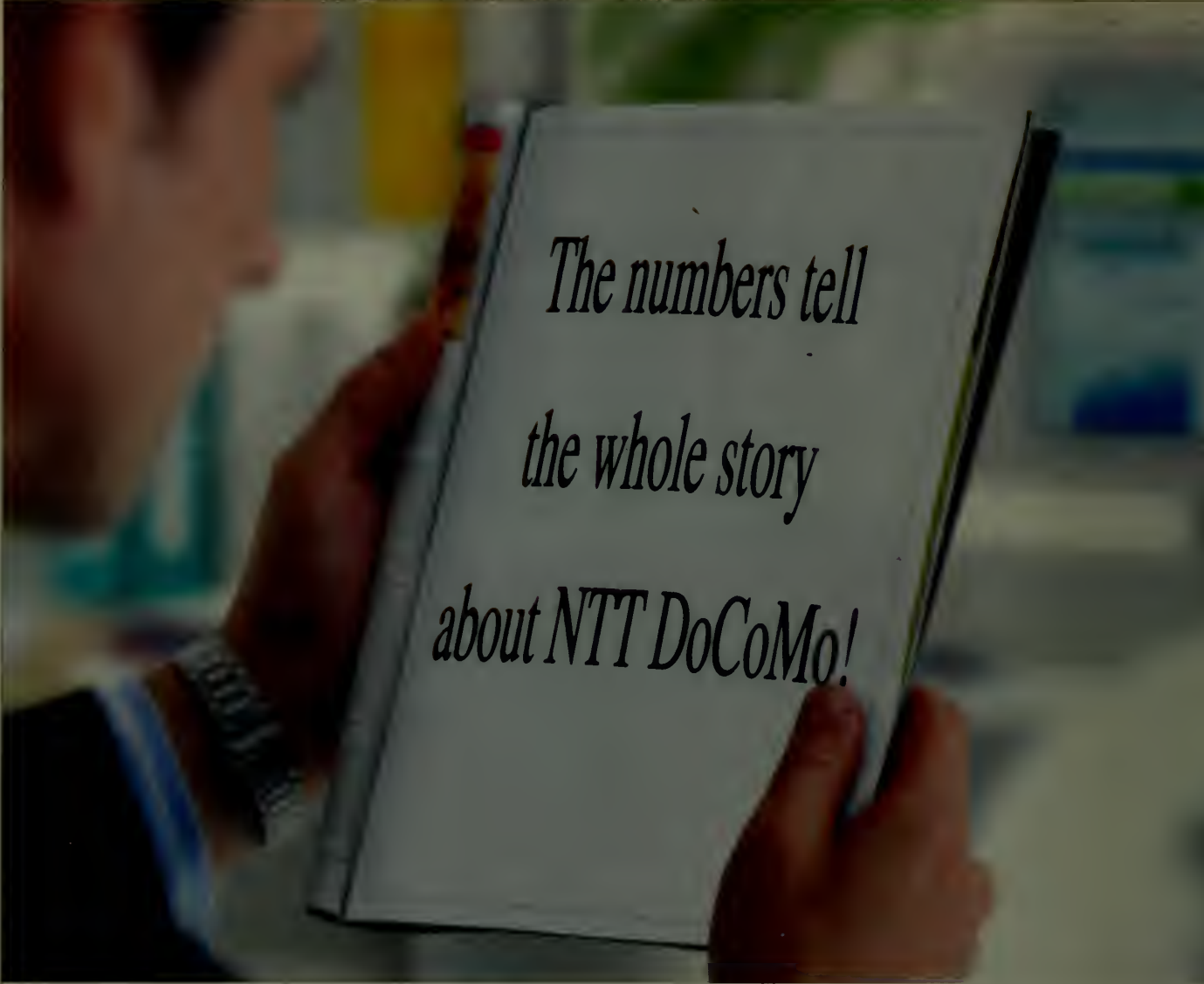
It wouldn't be cheap, and privacy shouldn't be trashed, but B-schools could act more like investigators to get at the character of an MBA-wannabe. First, staff up to check every credential. Use interviews to probe whether applicants really believe—and stay on track with—what they write in their essays. Or throw complex business problems at interviewees to measure not just acumen,

but also behavior. Sure, not every future scoundrel will be obvious. But with the degree—and a school's brand name—at risk of being cheapened, weeding out a few ethically challenged applicants helps.

■ Support from companies. Corporations already wield tremendous influence at some B-schools, making big donations, sending managers to non-degree classes, and sponsoring research. So how about funding a professorship in ethics? Companies should also open their doors to faculty who want to study everyday corporate ethics. "Ethics is a sensitive topic, but access is incredibly important to research," says Thomas Donaldson, a Wharton ethics professor. Both will require B-school deans to put pressure on companies. Finally, recruiters could follow through when hiring MBAs, placing as high a value on good ethics as they do on problem-solving skills. If a school's grads don't meet raised standards, companies should ax the school from their recruiting roster. Paul, Andy, are you listening?

Merritt directs BusinessWeek's B-school coverage.

"We are facing new realities, and for that we need a new body of knowledge"



*The numbers tell
the whole story
about NTT DoCoMo!*

●● **NTT DoCoMo, the world's leading mobile telecom company,
gets 20% of its ARPU*¹ from data transmission.**

- ① Aggregate ARPU \$68 (Voice \$54 + Data \$14)*²
- ② 44 million*³ total subscribers
- ③ 35 million of total subscribers access
NTT DoCoMo's wireless Internet service — i-mode™
- ④ 58.5% of Japan's mobile communications market*⁴
- ⑤ 41.2% of EBITDA margin*⁵



Beyond The Mobile Frontier

NYSE:DCM

For a borderless world.

For more about NTT DoCoMo, please visit www.nttdocomo.com

Source: NTT DoCoMo Corporate Website

①-⑤ According to NTT DoCoMo's results for the first half of FY2002 (April 1, 2002 to September 30, 2002) covering operations in Japan.

i-mode is a trademark or registered trademark of NTT DoCoMo, Inc. in Japan and other countries.

The i-mode service is only available to NTT DoCoMo's subscribers in Japan and other alliance partners' subscribers in Europe and Asia.

*1 Average monthly Revenue Per Unit <PDC (2G)> *2 Calculated at 120 yen/dollar

*3 As of November 2002. Subscribers for PDC (2G), FOMA (3G), PH-S, pager and other services

*4 Source: Telecommunications Carriers Association <PDC (2G) + FOMA (3G)>

*5 Consolidated Financial Report for the Six Months Ended September 30, 2002 (April 1, 2002 to September 30, 2002)
EBITDA Margin = EBITDA / total operating revenues [U.S. GAAP]

BusinessWeek

Investor

JANUARY 27 2003

MAKING LIFE RICHER

Can Your Life Insurer Pay?

How to Check
Your Company's Health
Page 110

HEALTH 113

No More
Reading Glasses

ENTERTAINING 114

A Super Bowl
Bash

BARKER 117

Digging for
Dividends

Where does “good design” meet the “bottom line”?

Right here.

Clients and architects who collaborate to solve diverse business challenges should get what they deserve – an award of international standing. The Annual Business Week/ Architectural Record Awards, sponsored by The American Institute of Architects, honors the achievement of business goals through architecture and distinguished collaboration between clients and architects.

Judges include major business leaders and renowned architects. Categories include interiors, new

construction or renovation projects with budgets ranging from under \$1 million to \$25 million plus. Award recipients are featured in both *Business Week* and *Architectural Record*, read by more than five million of the most influential people in business and design.

Get what you deserve. For registration information call 888-242-4240. Outside the U.S., call 202-626-7460. Or go to www.aia.org. Register by March 14, 2003. Submissions must be postmarked by April 18, 2003.

BusinessWeek

**ARCHITECTURAL
RECORD**



THE AMERICAN INSTITUTE OF ARCHITECTS

dividends

tips,
tidbits &
more

EDITED BY
TODDI GUTNER

THE STAT

3,662

AVERAGE amount employees contributed to 401(k) plans in 2001. maximum pretax contribution that year was \$5,500.

Profit-Sharing 401(k) Council of America

VESTING

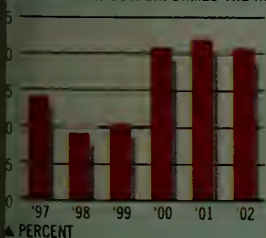
INDEX, S&P 500 INDEX

beating the S&P 500 as a breeze in '02

With the Standard & Poor's 500-stock index falling 23% in 2002, it's not surprising to discover you could have done better on your own. According to Merrill Lynch, almost 62% of the stocks in the S&P beat the index last year, vs. only 46% in 1999 and 46% on average between 1986 and 2002. Your stock picks may have still lost money, just less than the index. To come out ahead, you had to pick one of the 1-in-4 stocks that were winners.

STOCKPICKER'S MARKET

PERCENT OF STOCKS IN THE STANDARD & POOR'S 500 THAT OUTPERFORMED THE INDEX



Data: Merrill Lynch & Co.



HEALTH

Rinse and spit

ARE YOUNG KIDS getting too much fluoride? They could be—if they swallow rather than spit out toothpaste while brushing.

Fluoride, which was added to many municipal water systems in the 1940s and 1950s, and subsequently to most toothpastes, has drastically reduced kids' cavities. But when youngsters under 6 get too much fluoride, **their permanent teeth can come in with white spots or brownish mottling.** Besides being tempted to ingest toothpaste in yummy flavors like bubble gum, kids can also get too much fluoride if they drink soda and processed juice drinks made with fluorinated H₂O.

What can you do? Check with your dentist and pediatrician about your child's fluoride intake. The Centers for Disease Control (CDC) advises **no fluoride toothpaste for kids under 2 unless recommended by a doctor.** Kids 2 to 5 should limit brushing to twice a day, and use a pea-size dab of toothpaste. The CDC has recommended that toothpaste makers cut the fluoride dose in kids' brands. That hasn't happened yet, but **Orajel**, for one, makes a fluoride-free version.

Susan Scherreik



GADGETS

A GRIP THAT WON'T DRIP

Competition making you sweat? There's only one thing worse than missing crucial video-game targets because your hands are too clammy, and that's taking over a friend's damp, slippery gamepad when it's your turn. No more. **Nyco's Air Flo video game controllers** (\$25-\$30) for GameCube, Xbox, and PlayStation 2 have a tiny fan that blows air through the controller's grips.

PLANNING

ESTATE CHECKLIST

If devising an estate plan is one of your 2003 resolutions, Susan Hirshman of J.P. Morgan Fleming Asset Management suggests you answer these questions before seeing an attorney. Do you want:



your money to go to family, charity, or both?



to give away your assets while you're still alive?



to turn over all of your assets or simply their future appreciation?



to give up control over the assets or keep some via a trust?



IN RECENT MONTHS, life insurance companies have been subject of a steady stream of scary headlines: "State insurance regulators take North Carolina's London Life & Annuity," or "Conseco for bankruptcy," or "Investors bail from Allmerica Financial." Indeed, life insurers are having a rough time. Last year, for instance, most of the major rating agencies downgraded one-quarter or more of the companies they cover. Should you be worried? It depends on what company backs your policy and what kind of policy you have.

Is Your Life Insurer on Life Support?

Check to see if your policy is with a company that's in trouble. Now may be the time to bail out. BY PALLAVI GOGOI

If you haven't given any thought to financial condition of your insurer, should do so now—and figure out if there are any steps you need to take. Canceling a policy can be costly, and, depending on your age and health, it may not be easy to replace.

The danger, of course, is that if your company goes bust, you or your survivors may not be able to get immediate access to the money and may even lose a portion of it. In 1991, when several life insurance companies became insolvent, the regulators in many cases placed a moratorium on payouts, which lasted as long as three years. Some people received only about half of what their policies were worth.

What you should do depends on the kind of life insurance policy or annuity that you own. The most vulnerable are products tied to the company's balance sheet: permanent life insurance policies that earn interest and build a value over time, and fixed-rate annuities.

FINANCIAL CHECK-UP

The first thing to do is to check your insurer's financial health. Start with the company's ratings, which are published by one or more of five ratings agencies (see p. 112). The news isn't good there. Collectively, the insurers have just come through their worst year in a decade. A.M. Best—the largest insurance ratings service—downgraded 51 of the 1,074

Why all the downgrades? Insurers have lost billions from their investments in WorldCom, Enron, and other outfits that stumbled or defaulted last year

companies it rates. Standard & Poor's *BusinessWeek*, a unit of The McGraw-Hill Companies) and Moody's Investors Service both dropped the ratings of 20 life insurers, or 25% of the companies they rate. And in one fell swoop, Fitch Ratings downgraded 35 life insurers, 42% of its clients, in September.

Why the bad marks? "Many of those criteria (for rating insurers) are under pressure," says Kevin Kern, director of life insurance ratings at Standard & Poor's. Insurance companies have lost billions from their investments in bonds of such companies as WorldCom, Enron, and numerous others that stumbled or defaulted last year. At the same time, stock market losses have hurt the sales of popular products such as variable annuities. Interest rates are hurting the insurers,

too, since many have to fund policies with interest-rate guarantees much higher than today's rates. The result: Less capital is set aside for payouts.

At the same time, majors such as Prudential, MetLife, Principal Financial, and John Hancock have gone public since the insurance industry's last bust. Their earnings have to be shared with shareholders as well as policyholders. "All these new usages of earnings reduce the cushion," says Robert Riegel, managing director at Moody's.

The ratings agencies have negative outlooks on almost a third of these companies, which means more downgrades

are likely. If your company was in the top two tiers but has dropped to the middle category, you don't need to panic—but you should keep close tabs, or ask your insurance agent to do so. In fact, if that describes your situation and your agent or financial adviser is pushing you to change, you should ask why. "Find out the financial interest of the adviser before making a decision," says Joseph Belth, professor emeritus of insurance at Indiana University and editor of *The Insurance Forum* newsletter. A big sales commission could be awaiting him or her if you switch.

WHEN TO CHANGE

If your company has one of the "vulnerable" ratings, in most cases it pays to change. The exception: if you own a term life policy, one that accumulates no cash value and pays only a death

Look Carefully Before You Leap

Dumping a policy can be costly. Here are some things to consider before you take that step:

► **AGE** The older you are, the costlier the new coverage. In some cases, you might be denied.

► **HEALTH** If you have severe health problems, you might be denied new coverage altogether.

► **SURRENDER CHARGES** Cashing in the policy or annuity may trigger penalties.

► **TAXES** If your policy has accrued cash value, you will have to pay taxes if you withdraw it. In addition, you may be hit with a 10% IRS penalty.

► **WITHDRAWALS** With annuities, take advantage of the option that permits annual withdrawals of 10% to 15% without paying a surrender charge.

benefit. During the Mutual Benefit Life bailout in 1991, death benefits for term life policyholders were paid. In some rare cases when the state takes over a company, the payments might be limited to \$100,000. If you aren't comfortable with that, you can shop around. "But remember that you are a few years older, and if your medical and family (mortality) history isn't too good, you might have to pay more," says Wayne Gardner, a personal financial representative for Allstate Financial in Mobile, Ala. However, if you're fairly young, say 40 or less, and in good health, you might be able to extend the period of time covered and even get a lower premium, since companies are giving more attractive rates each year as people live longer.

With permanent life insurance, which comes in the form of whole, universal, variable, or variable universal life, it gets more complicated. These products are more expensive and build up cash values, which can offer more protection to your beneficiaries when you die. A popular use for them is as a supplement to pension income during retirement. However, they come with surrender charges in the first 10 to 20 years of the policy. So if you have a \$1 million policy with a \$3,000-a-year premium, there's little to reclaim if you switch companies in the first three to five years. That's because little cash value has been built and the surrender charges are high. Still, if you believe that the finances of your company are deteriorating fast, get out now—it would be better to lose a few thousand dollars and get a new policy for your heirs.

The fifth year is usually the inflection point at which cash values start

building and the penalties diminish. If you're at the 20th year in the policy, you are likely near retirement. Your premiums might double if you switch companies. "As you age, the cost of insurance increases at 4% to 6% each year, and with additional medical problems it may not be as easy to find coverage," says Mark Wecker, a life insurance agent and vice-president at lifeinsurance.net.

The Internal Revenue Service will want its take, too. If you cancel a policy, you will be taxed on the gains in cash value at your current income-tax rate and, if you are younger than 59½, you'll get hit with a 10% penalty.

If you don't trust your company and want to take out the money but not pay taxes, there's another option: With-

draw your premiums and take out a loan on the balance or the accrued interest, then place the money in a money-market account and monitor the company for six months to a year. If the financial situation improves, you can put it back. Of course, you have to pay a 2%-to-4% interest charge for the loan, but you don't have to pay taxes on it.

ANNUITY STRATEGIES

With a fixed annuity, surrender charges could apply for five to eight years. Getting into another annuity could mean earning less interest, and you will also enter a new surrender-charge period. Of course, if you've had the annuity for years and you have a low surrender charge, say 2%, it would be advisable to move. You can also take advantage

of the penalty-free withdrawal provision most annuities have that allow you to take out 10% to 15% of your money without incurring surrender charges. With variable annuities, your funds are not in danger, since they're separate mutual-fund-like accounts, on the insurer's balance sheet. Even variable annuities have a death benefit—you're usually guaranteed to get whatever you put in—and they could be endangered if the company is in trouble.

The bottom line is that the federal government does not guarantee life insurance reserve funds, and state guarantee funds are too small to protect most of the assets. The best guarantee of an insurance policy is an attentive policyholder.

HOW TO RATE INSURERS' RATINGS

Just as the bonds issued by companies and municipalities are rated, so are insurers. But understanding these "financial strength" ratings is not easy: **An A from one may not mean the same thing as an A from another** (table).

The older rating agencies are **A.M. Best** (www.ambest.com, 908 439-2200), **Fitch Ratings**, (www.fitchratings.com, 800 893-4824) **Moody's Investor Service** (www.moody's.com, 212 553-0377), and **Standard & Poor's** (www.standardandpoors.com, 212 438-2400). Insurers pay them for the grades, in the same way corporations and municipalities pay for theirs.

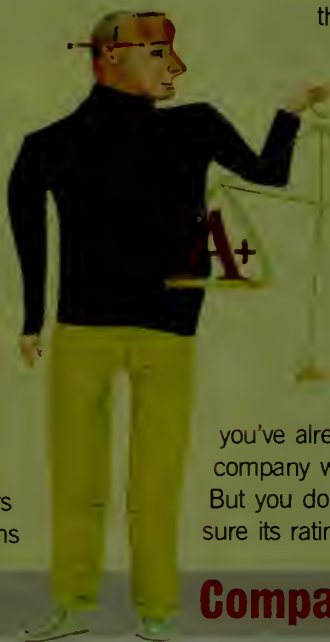
Weiss Ratings

(www.weissratings.com, 800 289-9222), launched in 1987, doesn't charge insurers but sells its reports to insurance agents, financial advisers, and consumers.

The key criteria that go into the analysis of a company are its business position, or competitive strength; its operating performance, or ability to drive sales and earnings; and its capitalization, or cash reserves, which is used to pay the claims.

At A.M. Best, which rates more insurers than any other, top ratings are A++ and A+. "Most likely these companies have the best reputation and have a competitive edge over others," says Michael Cohen, vice-president for life/health ratings at A.M. Best.

Watch out for B ratings, which on



the surface don't sound that bad. They're fine at Weiss but can be marginal or even signify serious financial vulnerability at the other agencies.

It's advisable to buy policies from insurers that are rated A+ by A.M. Best or its equivalent. **"Often, the most competitive prices are from companies that are the highest-rated, so why settle for less?"** says Byron Udell, CEO of Accuquote.com, a

life insurance brokerage in Northbrook, Ill. If you've already bought a permanent life policy from a company with a slightly lower A rating, don't cash it in. But you do want to keep an eye on the insurer to make sure its rating hasn't dropped much lower. *Pallavi Gogoi*

Comparing Grades

Your agent tells you the company is rated A+. Is that good? Yes, if it's from A.M. Best or Weiss Ratings, but it's a third-tier rating if it comes from Fitch Ratings or Standard & Poor's. Here's a table that shows how different grades compare with others.

		RATINGS SERVICES				
	TIER	A.M. BEST	FITCH	MOODY'S	STANDARD & POOR'S	WEISS
Secure Ratings	1	A++, A+	AAA	Aaa	AAA	A+, A, A-
	2	A, A-	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-	B+, B, B-
	3	B++, B+, B, B-, B	A+, A, A-, BBB+, BBB, BBB-	A1, A2, A3, Baa1, Baa2, Baa3	A+, A, A-, BBB+, BBB, BBB-	C+, C, C-
Vulnerable Ratings	4	C++, C+, C, C-	BB+, BB, BB-, B+, B, B-	Ba1, Ba2, Ba3, B1, B2, B3	BB+, BB, BB-, B+, B, B-	D+, D, D-,
	5	D, E, F	CCC+, CCC, CCC-, DDD, DD, D	Caa, Ca, C, C-	CCC, R	E+, E, E-, F

Data: U.S. General Accounting Office, Weiss Ratings, BusinessWeek

Put Those Glasses Away for Good

Promising new techniques could restore your youthful vision. **BY PAM BLACK**

IT'S A CURSE OF MIDDLE AGE: You can't focus on type less than two feet from your face, so you need reading glasses. To avoid half-glasses or bifocals, you can wear regular specs, but then you have to take them off and put them on to see clearly both near and far.

The condition is called presbyopia (Greek for "old vision"). It starts at fortysomething and worsens for the next 20 years, as the lenses

thicken or enlarge and lose the ability to focus at close range. An alternative is progressive lenses—with lenses that increase magnification, so you don't have to take them off. But several surgical remedies hold hope for improvement, if not a cure.

Conductive keratoplasty (CK): You can treat presbyopia by wearing a near-vision contact lens in one eye and a distance lens in the other. The brain adjusts for the conflicting signals by providing continuous near or far vision. If this treatment, called monovision, works for you with contacts, you can make it permanent through CK. CK uses a laser to shrink the cornea in one eye so it can see at close range. The other eye can see distance, you get the monovision effect.

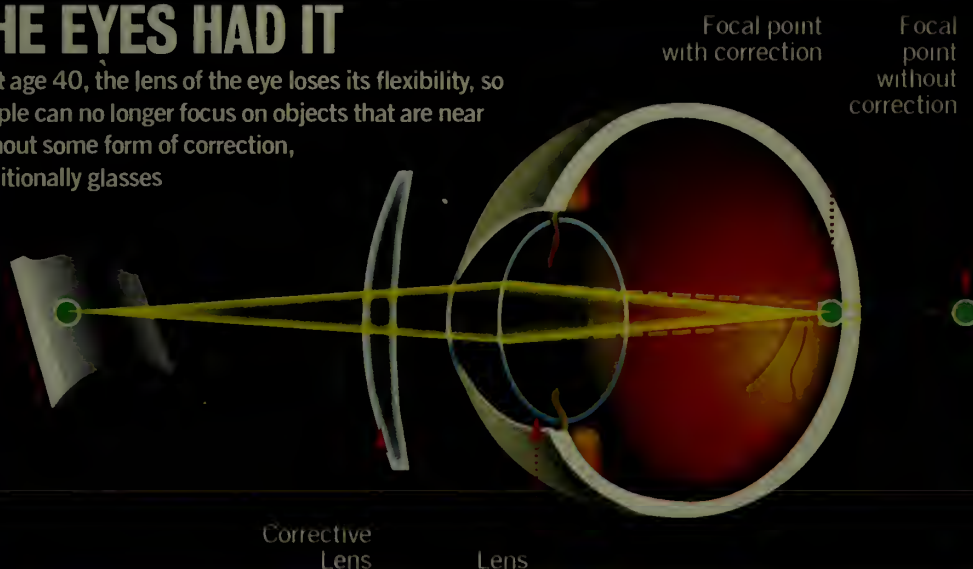
Surgical reversal of presbyopia (SRP): This procedure, now entering phase II clinical trials, operates on the idea that lens-like nails and hair, continue to grow. At about age 40, a nail is large enough to crowd the muscles around it, so that they can no longer pull it into shape for near vision. SRP surgically implants tiny pieces of contact-lens material into the crevices of the eyes that stretch the

lens compartment, restoring the tension between the muscles and the lens so the eye can focus naturally. "The procedure turns back the clock 25 years," says Dr. Robert Marmer, director of the Marmer Medical Vision Center in Atlanta. If SRP makes it through the Food & Drug Administration trials, it should be available in the U.S. in two to four years.

■ **Refractive lens exchange:** Now approved for cataract patients, this operation replaces the natural lens with a multifocal lens or a hinged lens that can move forward or back-

THE EYES HAD IT

Past age 40, the lens of the eye loses its flexibility, so people can no longer focus on objects that are near without some form of correction, traditionally glasses



ward. Multifocal lenses have near and far foci etched in two concentric circles. The idea is that the eye sees far and near, but the brain adjusts to the desired signal. "The trade-off is that the contrast perception is not as good," says Dr. Robert Maloney of the Maloney Vision Institute in Los Angeles. He says the best hope lies in hinged lenses, which have had promising results in phase III trials. Such solutions may let you take off your reading glasses for good. ■

Motivate This

If motivational plaques and such make you want to gag, try these "Demotivators" from despair.com. The site's notecards and prints, with their irreverent sayings, cost \$15.95 and up.



None of us is as dumb as all of us.

MISTAKES

It could be that the purpose of your life is only to serve as a warning to others.

CONSULTING

If you're not a part of the solution, there's good money to be made in prolonging the problem.

A Playbook For Your Super Bowl Party

You know to serve hog dogs. How about AstroTurf on the table? **BY KATE MURPHY**

BREAK OUT THE FOAM fingers and face paint: Super Bowl XXXVII is on Jan. 26. Most of the 132 million people expected to watch the game will do so with friends. Indeed, Super Bowl parties are the top at-home party event of the year, according to Hallmark Cards, which sells football-themed plates and cups. The secrets to hosting a successful gridiron gathering are clear television reception and a casual atmosphere.

"Caviar on toast points won't work," says Phyllis Cambria, a professional event planner in North Miami Beach, Fla., and co-author of *The Complete Idiot's Guide to Throwing A Great Party*. Indeed, Super Bowl fans expect hot dogs, chili, and six-foot hero sandwiches. This menu might not thrill low-fat diet guru Dean Ornish, but it's tradition, and it's once a year.

TV, TV EVERYWHERE

Whatever you serve, Cambria says, "make sure it's something you can eat with your fingers," because fans will want to keep their eyes on the game and not have to mind utensils. If you want an NFL-themed buffet, consider covering the



table with a swath of artificial turf and scattering NFL trading cards around. You can even get certain players' recipes from the NFL Web site, such as San Francisco 49ers quarterback Steve Young's chocolate-chip cookies and Baltimore Ravens QB Jeff Blake's stuffed mushroom caps (nfl.com/fans/forher/recipes_jblake.html).

Set up an additional TV near the food and drinks so no one misses any of the action when getting up to graze. In fact, you might want to have several TVs around the house—well as one outside for the smokers, says Martin Powell.

BEERS TO WARM YOU IN THE WINTER
Breweries offer a wide range of full-bodied seasonal suds



For beer connoisseurs who also happen to be football fans, the Super Bowl couldn't come at a better time. Stores are flush with that crowning triumph of brewers' ingenuity: winter beers.

While it would be un-American to banish Bud from your big game party (after all, somebody's got to help pay for those \$2 million TV ads), an array of winter warmers could provide another focus for your guests, particularly if the game is a blowout or the commercials have an



off year. The added cost of offering these unusual beers is modest, since they sell for just \$1 to \$3 more a six-pack than the standard suds.

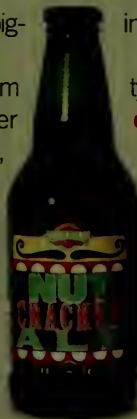
Although some associate this seasonal offering with dark ales spiced with nutmeg or cinnamon, you'll find just about any hearty style, from lagers and ales. Generally, though, winter brews tend to be heavier, darker, and stronger than ordinary beers, with more residual sugar, says Garrett Oliver, brewmaster of Brooklyn Brewery.



ner managing director of the now-defunct energy trading division of El Paso Corp. "We've even set up TVs in the bathroom," says Power, whose guests bring along extra TVs for annual Super Bowl bash in Houston.

renting a giant-screen or projection TV is another option. The cost is \$500 to \$1,000 a day. The players look as if they're crashing and gnashing in your living room, says Robert Tatum, publisher emeritus of *The Amsterdam News*, who invites some 100 guests to view the game every year on a 14-ft.-by-14-ft. projection TV in his New York apartment.

very. In other words, they're big-like the players on the field. Francisco-based Anchor Steam credit for reviving the winter tradition in the U.S. in 1975, aromatic **Christmas Ale**. Just about every brewer has one. **Leinenkugel's Big Butt Dock**, from a regional Wisconsin brewer owned by Miller is an uncommonly smooth while **Saranac Season's Best** brown lager from F.X. Matt



in upstate New York.

Other brewers opt for greater complexity. Nationally available **Sierra Nevada Celebration Ale** and the Midwest's **Boulevard Nutcracker Ale** both eschew adding spices to their brew, attaining piquant flavor notes solely through the manipulation of malt, hops, and yeast. Rogue, of Newport, Ore., doubles the hop content of its popular **Saint Rogue Red** to offer a luscious **Santa's Private Reserve**. The **Grand Cru** from Allagash Brewing in Port-



land, Me., has a subtle, fruity taste that comes from allowing some yeast to keep working in the bottle.

A word of caution: Some winter beers are really strong. Take **Brooklyn Monster Ale**. It's 10% alcohol by volume (enough to classify it as a barley wine) and tastes a bit like sherry. Brewmaster Oliver's recommendation: Save that one for the end, as you celebrate your team's victory or need consolation for your favorite's defeat.

Gerry Khernmouch

To get guests in the spirit, make them feel as if they're at a tailgate party by using folding beach chairs for extra seating and draping football flags from the ceiling. Pass out whistles and horns as well as foam footballs to toss at the television set after a bad play. Sherri Foxman, party adviser and founder of Party411.com, a party-supply e-tailer, recommends having face paint for avid fans and the kids. "You want everyone involved," she says.

IT'S ALL A GAME

Create pools to bet on the score at every quarter, on who will be the most valuable player, and on the number of fumbles. To engage nonfans, create scorecards for the best and worst commercials or best end-zone prance.

Another way to make your Super Bowl party festive is to have paper plates and napkins in the rival teams' colors. You might also want to have T-shirts, ball caps, or plastic cups printed to give as favors. A fun idea is to use white tape or chalk to mark out yard lines from the curb to your front door. Maybe wear a striped referee's shirt to show you're in charge.

Think about filling a piñata with chocolate footballs for disappointed fans to release their frustration. Above all, make sure your television sets are working and get clear reception on the ABC network, which will broadcast the game. Kickoff is 6:25 p.m. EST, Super Bowl Sunday. ■



FINGER FOOD

Quarterback Jeff Blake's team, the Baltimore Ravens, didn't make it into the playoffs. But his wife Lewanna's recipe for **baked stuffed mushrooms** is sure to be a winner at your Super Bowl party. We tested it out and made a slight adjustment to the baking time.

■ INGREDIENTS

- 8 ounces cream cheese, softened
- 3/4 cup grated Parmesan cheese
- 1/4 cup real bacon bits
- 2 cloves garlic, minced
- 20 medium mushroom caps
- 1 cup mild cheddar cheese, shredded

■ DIRECTIONS

1. Preheat oven to 375F.
2. In a mixing bowl, blend the cream cheese, Parmesan, bacon bits, and garlic.
3. Spoon a tablespoon of the mixture into each mushroom cap. Sprinkle cheddar cheese on top.
4. Bake 30 to 35 minutes until mushrooms are cooked. Serve hot.

When It Comes To Fish, Go Wild

The free-range varieties are better for you than their farm-bred cousins.

BY KATE MURPHY



MANY PEOPLE eat fish because it has less fat than other kinds of meat, and they think the "good fat" it does have may help prevent coronary artery disease, inflammatory disorders, depression, and Alzheimer's. But fish, like people, are what they eat, and they're leaner and healthier when they exercise.

Farm-raised fish have more total fat than their wild counterparts, and their ratio of good, omega-3 fats to bad, saturated fats is much lower. Why? Wild fish aren't fat-

WATER AEROBICS
Salmon swimming upstream to spawn

and by most accounts tastier.

Wild fish are also not dosed with antibiotics as their cousins are down on the farm. Some wild fish, such as salmon, are hard to get year-round, so buy them frozen or choose another in-season variety. But don't overdo it with species such as shark or swordfish that may be contaminated with mercury.

As is often the case with healthier foods, you may pay more per pound for the wild varieties, especially when they're not in season. But you might find it's worth a few extra dollars when it comes to better taste and nutrition.

FOOD FIGHT

FISH 100-GRAM SERVING*	FAT PER SERVING GRAMS	PERCENT TOTAL FAT THAT'S OMEGA-3	TOTAL CALORIES
Wild Atlantic salmon	6.34	27%	142
Wild coho salmon	5.93	22	146
Wild trout	3.46	20	119
Wild catfish	2.82	19	95
Farmed trout	5.40	17	138
Farmed Atlantic salmon	10.85	17	183
Farmed coho salmon	7.67	16	160
Farmed catfish	7.59	5	135

*Approximately 3 ounces

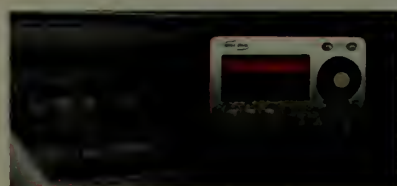
Data: USDA Nutrient Database

tened on fish meal, corn, or pellets. Instead, they hunt for their food, which makes them leaner.

ELECTRONICS

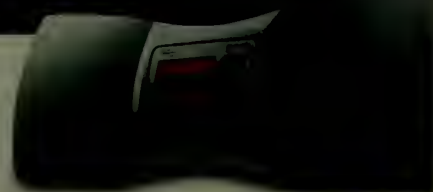
XM Radio: Now You Can Try It at Home

Since its launch last year, **XM Satellite Radio** (800 852-9696, xmradio.com) has been broadcasting a refreshingly eclectic selection into the cars of more than 200,000 subscribers nationwide. For \$9.99 a month, listeners get a diverse lineup of **101 CD-quality channels**—and the pleasure of



tuning into one of XM's dozens of music stations to find something

new, or come across classic recordings.



But why limit this programming to the road? XM has introduced a line of plug-and-play components that work just as easily at home as in the car. The heart of the system, made by Delphi, is the portable XM **SKYFI Radio receiver** (\$129.99). For tunes on the go, the skyFi unit clicks easily into a specially designed dock (\$69.99) attached to your car stereo. Once you're home, pull out the skyFi receiver and pop it into a compatible boombox (\$99.99) for XM reception right on your kitchen counter.

Adam Astor

DIVIDEND STOCKS WORTH STOCKING

BY ROBERT BARKER rb@businessweek.com

ONE NOW KNOWS the fate of President Bush's plan to stop taxing dividends. Yet even Congress tempers the proposal, investors' renewed interest in dividend-paying stocks is likely to blip out. As with most everything on Wall Street, it's all about expectations: With hopes of stock market returns having cooled from the high teens to mid-single

digits, stocks with a relatively secure 3% or 4% dividend are enjoying a fresh glow.

The question is, which dividend payers are worth putting in your portfolio? There are many approaches to the answer, from trying to isolate those industries with the best rates of growth in earnings and, by extension, dividends, to looking for companies that now pay no dividend but may in the future. But to capture my own list of possibilities, I opted to cast a wider net. So I started with Value Line's database of 7,849 stocks (available in CD-ROM for Windows or online at valueline.com) and searched it for likely candidates. I wound up with seven (table).

Here's how. First, I asked the software to exclude stocks under \$500 million in market value, plus foreign stocks and estate investment trusts because they don't figure to benefit from the Bush proposal. Next, for a fair range of dividend yields, I spoke to veteran money manager Tony Spare, author of a helpful book called *Relative Dividend Yield* (John Wiley & Sons, \$59.95). Stay away from stocks with

huge yields, he warned: "If it's 8% or 10%, it's probably not real," meaning the dividend is at risk of being cut. So I set the software to include only stocks yielding between 3%—about what the five-year Treasury note pays—and 6%. Finally, I sought only companies with positive cash flow even after capital spending, with annual dividend growth over the past five years averaging a reasonable 7% or more, and with expected profit and dividend gains this year. After all that, just

eight stocks remained standing, including Household International, which I cut because it's set soon to merge with HSBC.

The rest come from a range of industries. A sluggish grower, ConAgra Foods may see its margins widen as it tilts business further away from commodities and more toward packaged foods, such as its Healthy Choice line. Emerson Electric, which makes a slew of gear from industrial valves to kitchen garbage disposals, finished its last fiscal year with a record \$1.4 billion in cash flow after capital outlays. General Electric's dividend growth has slowed sharply. But Nancy Tengler, Spare's co-author on the first edition of *Relative Dividend Yield* and CEO of Fremont Investment Advisors, is betting it will rise from 6% lately to perhaps 10%.

After a recent spin-off of several food lines, including StarKist tuna, H.J. Heinz is cutting debt and refocusing on its mainstays—condiments, frozen foods, and, of course, ketchup. Mailing-services giant Pitney Bowes has paid dividends since 1934. The smallest company on my list, Russ Berrie, sells stuffed animals and other gift items. With the recent death of its founder and CEO, the company is being led by director Josh Weston, formerly CEO of Automatic Data Processing. He can rely on a debt-free balance sheet. As for Sonoco Products, the packaging company said it sees cash flow of \$140 million to \$160 million, after both capital spending and dividends over the next four years.

Will all of these stocks go up? I can't say, but each is in a solid position to maintain and even raise its dividend. At a time when five-year Treasuries pay little more than 3%, that's an alluring offer, dividend tax relief or no. ■

YEARNING FOR YIELDS? TRY THESE

COMPANY / SYMBO	PRICE*	DIVIDEND	DIVIDENDS AS % OF NET INCOME**	PRICE/ EARNINGS RATIO***
ConAgra Foods CAG	\$25.86	3.8%	59%	14.8
Emerson Electric EMR	51.68	3.0	82	19.1
General Electric GE	25.65	3.0	44	14.7
H.J. Heinz HNZ	33.71	4.8	69	14.7
Pitney Bowes PBI	33.52	3.5	38	13.7
Russ Berrie RUS	34.12	3.0	48	13.9
Sonoco Products SON	23.44	3.6	43	15.7

*Price as of 10/10/02. **Trailing 12 months. ***For ConAgra, estimate is for fiscal year ending May, 2004; for Emerson, fiscal year ending September, 2003; for Heinz, fiscal year ending April, 2004; otherwise, based on earnings estimates for 2003.

Data: Value Line, Standard & Poor's, *BusinessWeek*



BusinessWeek online For an archive of columns, go to www.businessweek.com/investor/ and click on "Columns"



THE WORST OF THE INSURANCE WOES MAY BE OVER FOR CHUBB. MORTGAGE-FEE INCOME AT OCWEN IS POISED FOR A RECOVERY. POSSIS DEVICES LEAD THE INDUSTRY IN REMOVING BLOOD CLOTS

BY GENE G. MARCIAL

Chubb: Set to Bounce

Insurance has had a double whammy: September 11 and industry exposure to asbestos and toxic-waste claims. Nonetheless, Chris Winans, an insurance guru at Williams Capital Group, believes some stocks could outperform the market: Chubb (CB), a property and casualty insurer, is his top choice, with a strong-buy rating. He notes Chubb's strong balance sheet—despite such underwriting mistakes by past management as underpricing premiums for corporate executive liability insurance. The stock is down from 78 in April to 57, but Winans sees it rebounding to 73 in a year. That's 1.6 times his estimate of 2003 book value, which is usual for a top insurer, vs. 1.4 now. The current low price reflects concern over new management, led by industry outsider John Finnegan, and worry over earnings as Chubb builds up its reserves. "These fears are overblown," says Winans, who believes CEO Finnegan "will surprise investors" at the fourth-quarter-earnings meeting with analysts in early February. "He will win investors' confidence when they hear of Chubb's performance and growth prospects." The company, he adds, can easily absorb future reserve adjustments if they are necessary. In the past two years, Chubb has raised its rates—which shows up in the 28% growth in premium revenue in 2002. Winans figures Chubb will still post a hefty 19% in 2003. He expects operating earnings to leap to \$6.48 a share in 2004, up from \$4.96 in 2003 and \$2.03 in 2002.

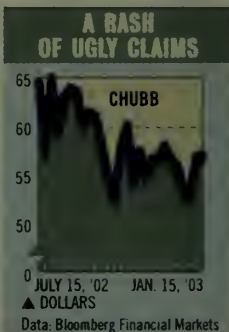
Catherine Seifert of Standard & Poor's also rates Chubb a buy, despite asbestos worries. By adding \$635 million to reserves in the third quarter, Chubb has provided for asbestos and toxic-waste claims, says Seifert.

As Rates Rise, Ocwen Will Thrive Again

Ocwen Financial (OCN) is an odd duck: Unlike other financial stocks, it rises when interest rates go up and falls when rates decline. Ocwen is in the business of servicing subprime mortgage loans for real estate companies and mortgage providers for a fee based on a percentage of the loan value. So its operating performance is inversely correlated to the refinancing index. In a period of stable or rising interest, Ocwen's margins

are strong, as the incentive to refinance diminishes. But when interest rates fall—as they have in the past two years—Ocwen's income suffers as homeowners refinance in droves. Ocwen pays mortgage originators for loan-servicing rights. Most analysts are negative on Ocwen stock. But Vince Carino of Brookhaven Capital Management, who has accumulated a sizable stake, notes that interest rates are ready to rise with the economic recovery. "As the yield curve flattens, Ocwen's business will pick up again—and so will its stock," he says. Carino projects earnings of 25¢ to 30¢ a share in 2003 and 80¢ in 2004—after a loss in 2002. He expects the stock, now at 2.71, to hit its old high of 11 in a year.

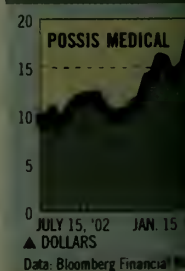
FALLING IN TANDEM WITH INTEREST RATES



Heartening News At Possis Medical

Back on Mar. 13, 2002, shares of medical-device maker Possis Medical (POSS) hit a high of 18. Then they tumbled to 8 by July 26, in the wake of the overall market collapse. Recently, they have been on a tear, reaching 18 on Jan. 15. Some pros are saying that the stock will easily top its old high in 2003. Here's why: Possis makes a line of devices to extract life-threatening blood clots. Possis' patented AngioJet system is the only minimally invasive technology approved by the Food & Drug Administration for removing clots from coronary blood vessels, bypass grafts, and leg arteries. Analyst Jacqueline Waterman of Jesup & Lamont Securities says Possis is aiming for AngioJet to be an effective adjunct to angioplasty, stenting, and distal protective procedures. In a few years, she says, it will be a major treatment for heart attacks and ischemic strokes. Waterman figures Possis, which earned 34¢ a share in fiscal 2002 ended July 31, on sales of \$42 million, will make 36¢ on \$56 million in 2003 and 49¢ on \$70 million in 2004. Analyst Douglas Eaymiers of Dougherty & Co. rates Possis a strong buy based on its rapid revenue growth and widening market share.

MOUNTING PRESSURE



BusinessWeek online

Read Gene Marcial's Inside Wall Street Online column at www.businessweek.com/today.htm. And see him Fridays at 1:40 p.m. EST on CNN's *The Money Gang*.

Unless otherwise noted, neither the sources cited in Inside Wall Street nor their firms hold positions in the stocks under discussion. Similarly, they have no investment banking or other financial relationships with the

Ranked #1 by *SmartMoney Magazine* for the Do-It-Yourself Investor*



**"Homework always comes before success.
In the dictionary and in the stock market."**

Top Picks 2003



Call today and mention offer code: MHWBWS
to get Standard & Poor's Top Picks for 2003

CONTACT US AT:

1.800.tdwaterhouse
tdwaterhouse.com
Online trades as low as

\$9.95

As a matter of fact, homework comes before a lot of words. Words like independence, judgment and peace-of-mind. So if you're confident making your own investment decisions, and you're looking for a place where you can sit down and do your homework, then you're looking for TD Waterhouse.

It's a place with the financial tools that Do-It-Yourself investors need. Like our Online Retirement Planner, so you can plan for the future *you* want to live. Objective, unbiased research including Standard & Poor's Five STARS Stock Report. And more free news and research than

you'll find just about any place else. Plus access to continuously streaming real-time quotes[†] to keep you on top of the market—and your money.

And service? You can get the answers you need online, by phone, or at a branch near you. All of which makes TD Waterhouse the best value in investing. No wonder we've been ranked #1 for the Do-It-Yourself investor by *SmartMoney Magazine*.



Waterhouse

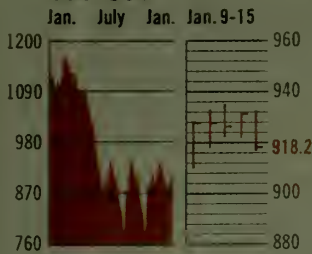
You're in Control.

TD Waterhouse Investor Services, Inc. Member NYSE/SIPC. Access to services and your account may be affected by market conditions, system performance or for other reasons. Online market orders are \$9.95–\$17.95 depending on trading activity. Limit orders more. Trades over 2,500 shares incur a 1 cent per share charge for the entire order. Call or see tdwaterhouse.com for complete commission fee schedule. Offer valid for new customers who open individual/joint accounts with a \$1,000 minimum; retirement, custodial, and corporate accounts are not eligible. Funds transferred from existing TD Waterhouse accounts are not eligible. One offer per person; U.S. residents only; void where prohibited; free trades are valid for 30 days from account opening; standard terms and conditions offer subject to change at any time without notice. Third party research obtained from sources deemed reliable; however, TD Waterhouse does not guarantee its accuracy or completeness and makes no warranties with respect to results to be obtained from its use. Streaming real-time quotes available depending on trading activity. *SmartMoney Magazine, August 2002. SmartMoney is a registered trademark. SmartMoney is a joint publishing venture of Dow Jones & Co., Inc. and Hearst Communications Inc.

BusinessWeek Investor FIGURES OF THE WEEK

STOCKS

S&P 500

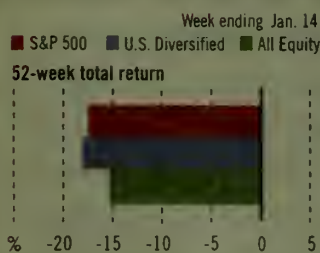
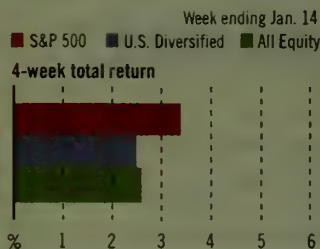


COMMENTARY

The major indexes all gained ground for the week, despite the sell-off that occurred on Jan. 15. The positive performance was impressive given a slew of weak economic news, ranging from falling December payrolls to rising oil prices to weak consumer spending. Investors may have been encouraged by Intel and Bank America, which reported better numbers than had been expected.

Data: Bloomberg Financial Markets, Reuters

MUTUAL FUNDS



Data: Standard & Poor's

U.S. MARKETS

	JAN. 15	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
S&P 500	918.2	0.9	4.4	-19.3
Dow Jones Industrials	8723.2	1.5	4.6	-11.8
NASDAQ Composite	1438.8	2.7	7.7	-27.7
S&P MidCap 400	439.6	0.9	2.3	-12.2
S&P SmallCap 600	199.6	0.4	1.5	-13.0
Wilshire 5000	8680.0	1.0	4.0	-18.2

SECTORS

BusinessWeek 50*	555.5	0.5	2.4	-23.7
BusinessWeek Info Tech 100**	308.6	2.3	8.1	-26.9
S&P/BARRA Growth	466.7	0.7	4.0	-21.5
S&P/BARRA Value	448.3	1.1	4.7	-17.4
S&P Energy	182.9	0.4	-0.2	-9.9
S&P Financials	314.4	1.4	5.9	-10.4
S&P REIT	89.3	-1.6	-1.7	-5.2
S&P Transportation	172.0	-0.7	1.2	-11.5
S&P Utilities	100.9	-2.6	3.2	-30.1
GSTI Internet	81.5	4.0	9.1	-23.6
PSE Technology	493.5	2.0	7.7	-29.2

*Mar. 19, 1999=1000 **Feb. 7, 2000=1000

BEST-PERFORMING GROUPS

	LAST MONTH %	LAST 12 MONTHS %
Broadcasting	19.4	Photographic Products 44.4
Office Electronics	16.5	Metal & Glass Containers 38.5
Constr. & Engineering	13.2	Divsfd. Metals & Mining 17.5
Networking Equipment	13.1	Specialty Chemicals 13.9
Computer Stge. & Perphs.	13.0	Gold Mining 11.1

EQUITY FUND CATEGORIES

4-WEEK TOTAL RETURN	%	52-WEEK TOTAL RETURN	%
LEADERS		LEADERS	
Latin America	7.6	Precious Metals	53.0
Communications	6.5	Real Estate	3.1
Technology	6.1	Natural Resources	-0.6
Japan	3.7	Diversified Emerging Mkts.	-3.3
LAGGARDS		LAGGARDS	
Natural Resources	-2.8	Technology	-37.8
Real Estate	0.5	Communications	-30.4
Miscellaneous	1.7	Health	-24.5
Small-cap Blend	1.8	Small-cap Growth	-24.4

EQUITY FUNDS

4-WEEK TOTAL RETURN	%	52-WEEK TOTAL RETURN	%
LEADERS		LEADERS	
OPTI-flex Dynamic	17.9	First Eagle SoGen Gold	87.0
iShares Gold, Sachs Netwkg.	17.4	Monterey OCM Gold	72.8
American Heritage Growth	16.7	Gabelli Gold	69.6
iShares MSCI Brazil Index	16.5	Van Eck Intl. Invsr. Gold A	68.7
LAGGARDS		LAGGARDS	
Frontier Equity	-13.8	ProFunds UltraSemicdr. Inv.	-66.9
Fidelity Sel. Energy Serv.	-12.0	ProFunds UltraWriss. Serv.	-64.1
ProFunds UltraShort OTC	-11.6	ProFunds UltraOTC Inv.	-63.9
Rydex Dynam. Vent. 100	-11.4	Rydex Dynam. Veloc. 100	-62.8

GLOBAL MARKETS

	JAN. 15	WEEK
S&P Euro Plus (U.S. Dollar)	885.6	1.9
London (FT-SE 100)	3887.8	-0.9
Paris (CAC 40)	3134.7	1.3
Frankfurt (DAX)	3049.4	1.9
Tokyo (NIKKEI 225)	8611.8	1.1
Hong Kong (Hang Seng)	9873.5	1.9
Toronto (S&P/TSX Composite)	6801.4	1.2
Mexico City (IPC)	6398.9	2.1

FUNDAMENTALS

	JAN. 14	WKL
S&P 500 Dividend Yield	1.71%	1.7
S&P 500 P/E Ratio (Trailing 12 mos.)	29.8	29
S&P 500 P/E Ratio (Next 12 mos.)*	16.7	17
First Call Earnings Surprise*	6.99%	11.2

TECHNICAL INDICATORS

	JAN. 14	WKL
S&P 500 200-day average	948.4	953.
Stocks above 200-day average	39.0%	38.
Options: Put/call ratio	0.72	0.6
Insiders: Vickers NYSE Sell/buy ratio	2.28	2.2

WORST-PERFORMING GROUPS

	LAST MONTH %
Home Improvement Stores	-11.7
Oil & Gas Drilling	-8.4
Airlines	-7.5
Oil & Gas Equipment	-6.6
Housewares & Specialties	-6.2
Multi-Utilities	
IT Consulting	
Tires & Rubber	
Semiconductors	
Instrumentation	

INTEREST RATES

KEY RATES

	JAN. 15	WEEK AGO
MONEY MARKET FUNDS	1.01%	1.03%
90-DAY TREASURY BILLS	1.18	1.18
2-YEAR TREASURY NOTES	1.72	1.73
10-YEAR TREASURY NOTES	4.06	4.02
30-YEAR TREASURY BONDS	4.96	4.94
30-YEAR FIXED MORTGAGE†	6.02	6.01

†Bank

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 30% federal tax rate

	10-YR. BOND
GENERAL OBLIGATIONS	3.82%
TAXABLE EQUIVALENT	5.46
INSURED REVENUE BONDS	3.99
TAXABLE EQUIVALENT	5.70

THE WEEK AHEAD

NEW RESIDENTIAL CONSTRUCTION Tuesday, Jan. 21, 8:30 a.m. EST ► Housing starts during December are forecast to have slipped by 1.2%, to an annual rate of 1.68 million. That's according to the median forecast of economists surveyed by MMS International. In November, construction rebounded to a pace of 1.7 million homes.

FEDERAL BUDGET Wednesday, Jan. 22, 2 p.m. EST ► The federal government is expected to report a surplus of \$10 billion for December, far short of the \$26.6 bil-

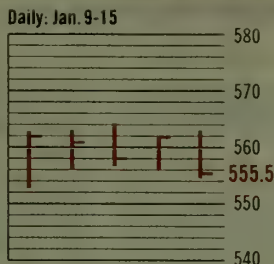
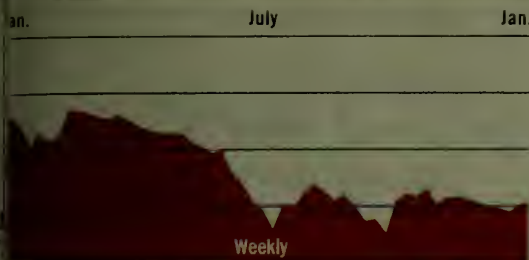
lion surplus posted during the same month in 2001. In November, the deficit was \$59.1 billion. While President George W. Bush's new stimulus package will likely be altered in Congress, early forecasts show the fiscal year 2003 deficit could hit \$300 billion. The Congressional Budget Office will issue new projections for the current fiscal year at the end of January.

UNEMPLOYMENT CLAIMS Thursday, Jan. 23, 8:30 a.m. EST ► New filings for state unemployment insurance most likely totaled

about 400,000 for the week ending Jan. 18. Claims fell back to 389,000 in the first week of January. Recent claims have been volatile because of difficulties adjusting for seasonal variations, that could continue through the end of January.

LEADING INDICATORS Thursday, Jan. 23, 10 a.m. EST ► The Conference Board index of leading indicators probably will be steady in December, following a 0.7% jump in November.

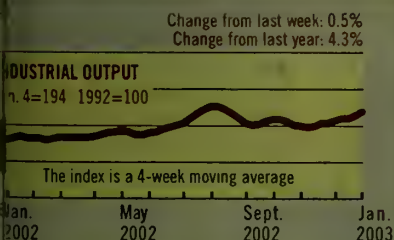
BUSINESSWEEK FIFTY



50 eked out a 0.5% gain for the week ended Jan. 15. Best Buy climbed 14.6%, bucking the trend retailers after announcing strong holiday sales and raising its earnings forecast. Energy providers were mixed as Duke Energy sank 15.0% after saying that 2002 profits fell more sharply than expected, while Enbridge continued to improve, rising 10.5%.

COMPANY PERFORMANCE			% CHANGE			% CHANGE		
COMPANY	WEEK	SINCE 3/1/02	RANK	COMPANY	WEEK	SINCE 3/1/02	RANK	COMPANY
Johnson & Johnson	-1.3	-9.7	26	Tenet Healthcare	11.5	-51.1		
Radio Shack	1.6	0.3	27	Household International	0.1	-44.7		
Wal-Mart	-1.5	-25.7	28	WellPoint Health Networks	-3.9	11.3		
Verizon	-2.4	-14.3	29	Washington Mutual	-1.6	8.6		
Philip Morris	1.5	-21.9	30	Duke Energy	-15.0	-48.8		
3M	-2.4	-33.6	31	Kohl's	10.1	-13.9		
Home Depot	0.9	-11.6	32	Bed Bath & Beyond	-0.8	5.7		
Walgreens	2.2	-16.0	33	Cardinal Health	-4.0	-9.3		
Best Buy	14.6	-37.8	34	Centex	1.3	-9.7		
ResourceBerg	-2.6	-20.0	35	American Electric Power	-8.4	-37.7		
UnitedHealth Group	-3.0	13.1	36	Golden West Financial	0.7	16.4		
Johnson & Johnson	2.0	11.4	37	Stryker	-0.3	9.3		
Home Depot	3.4	-56.3	38	Harley-Davidson	1.8	-5.9		
Wal-Mart Stores	1.2	-18.4	39	PepsiCo	0.6	-15.0		
Regency	10.5	-90.5	40	Merck	0.5	-3.3		
General Dynamics	-2.9	-15.2	41	Apache	9.0	16.3		
ExxonMobil	0.3	-19.3	42	Amerada Hess	2.5	-18.6		
Quest Laboratories	2.6	37.4	43	KB Home	-1.2	1.0		
Lock (H&R)	-0.8	-18.4	44	First Data	2.9	-11.1		
Exxon	-2.8	-44.2	45	Tyco International	5.9	-38.5		
Cidental Petroleum	0.8	6.6	46	International Game Technology	3.6	14.2		
Exxon	-1.5	1.3	47	Capital One Financial	4.3	-25.0		
Home Depot	0.7	-1.1	48	Electronic Data Systems	-1.7	-66.1		
Marathon Oil	2.3	-21.1	49	Nabors Industries	3.6	-5.0		
Exxon	2.1	-11.7	50	Xcel Energy	-3.3	-48.5		

PRODUCTION INDEX



ed production index increased. Before calculation of 4-week moving average, the index rose to 195.9 from 195.4 after seasonal adjustments, autos and lumber saw the gains, with steel, crude-oil refining, and rail-freight up. Trucks, electric power, and coal all posted declines. The index has been revised back to 1992 to reflect the new North American Industry Classification System components. To request the new data, please email business_outlook@businessweek.com.

Each of the index components is at www.businessweek.com
Index Copyright 2002 by The McGraw-Hill Companies

ONLINE RESOURCES

BW 50 Track the index and the companies in it all day long. Plus: our exclusive Info Tech 100 index.

BUSINESSWEEK INVESTING Real-time market coverage and investment tools in partnership with Standard & Poor's.

MUTUAL FUNDS Search for funds, view BW ratings, and read Q&A's with fund managers.

COLUMNS Hot stocks, takeover plays, and the latest strategies for managing your money.

BusinessWeek online

For more investment data and the components of the production index, visit www.businessweek.com

Spend
some
quality
time
with
your
money.



See inside

On-air weekend mornings.
Check your local listings.

To advertise with BusinessWeek TV, contact Janet Schatz, Director of BusinessWeek TV Sales, at 212-512-3011 or janet_schatz@businessweek.com.

www.businessweektv.com

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Abbott Laboratories (ABT) 57
ABC (DIS) 87
ACS 57
Adelphia Communications (ADELQ) 87
Adventis 98
Aetna (AET) 57
Affiliated Computer Systems (ACS) 57
AgION Technologies 14
Allagash Brewing 114
Amazon.com (AMZN) 42
A.M. Best 110, 112
AmBev 57
AnnTaylor Stores (ANN) 57
AOL Time Warner (AOL) 36, 37, 44, 87, 124
Apria Healthcare (AHG) 32
Arthur Andersen 35
Arxan Technologies 14
Atlanta Falcons 87
Autodata 38
Automatic Data Processing 117
AutoNation (AN) 87

B

Baltimore Ravens 87
Banc of America Securities (BAC) 40
Banc One Investment Advisors (ONE) 103
Bank One (ONE) 96
Barricalla 46
Baxter International (BAX) 32
BDA China 98
Bear Stearns (BSC) 98
BenQ 98
Best Buy (BBY) 14
BlueFire Research 82
Boeing (BA) 96
BP (BP) 14
Brand Keys 87
Brookhaven Capital Management 118
Brooklyn Brewery 114

C

Cablevision Systems (CVC) 37
CBS (VIA) 85, 87, 94
CCID Consulting 98
CDW Computer Centers 32
Centex Homes (CTX) 57
Chubb (CB) 118
ClearCube Technology 14
CNN (AOL) 44
CNW Marketing Research 38

Coca-Cola (KO) 57
Comcast (CMCSK) 37, 87
Computer Associates (CA) 57
ConAgra (CAG) 117
Conseco (CNC) 110
Coors Brewing (RKY) 87
Covington & Burling 54
Cox Communications (COX) 37
Crown Casinos 50
CSX (CSX) 12
Cushman & Wakefield 50

D

DaimlerChrysler (DCX) 103
Dallas Cowboys 87
Datek 44
Decision Economics 32
Dell Computer (DELL) 45
Deloitte & Touche 35
Delphi (DPH) 116
Deutsche Telekom (DT) 98
DirectTV (GMH) 87
DuPont (DD) 103

E

Eastcom 98
EasyLink Services (EASY) 82
Ecobat 46
Ecoverde 46
El Paso (EP) 114
Electronic Arts (ERTS) 37
EMC (EMC) 40
Emerson Electric (EMR) 117
Enron (ENRNQ) 35, 39, 110
Equity Research Services 82
Ericsson (ERICY) 98
Ernst & Young International 35
ESPN 87
Exelon (EXC) 96

F

FBR Financial Services (FBRFX) 57
Fidelity Investments 22, 57, 87
Fidelity Low-Priced Stock (FLPSX) 57
Fidelity Magellan Fund (FMAGX) 57
FirstFed Financial (WFSL) 57
Fitch 110, 112
Florida Marlins 87
Florida Panthers 87
Ford (F) 38

Forest Laboratories (FRX) 57
Fox Entertainment (FOX) 87
Fox-Pitt Kelton 84
Fremont Investment Advisors 117
F.X. Matt 114

G

General Dynamics (GD) 102
General Electric (GE) 35, 40, 87, 117
General Motors (GM) 38, 44, 96
Giesse 50
Golden West Financial (GDW) 57
Goldman Sachs (GS) 84
Grant Thornton 32
Gudan Garam 57

H

Hartmarx (HMX) 82
HBO 37, 124
H.J. Heinz (HNZ) 117
Home Depot (HD) 40, 87
Honda (HMC) 101
Hotchkis & Wiley Mid Cap Value Fund (HWMIX) 57
HotJobs (YHOO) 44
Houlihan Lokey Howard & Zukin 87
Household International (HI) 117
HSBC (HBC) 117

I

Inktomi (INKT) 44
Institutional Shareholder Services 22
Intel (INTC) 44, 45
International Catamarans Tasmania 102

J

J. Crew 14
Jesup & Lamont Securities 118
J.M. Dutton & Associates 82
John Hancock (JFH) 110
John Hancock Financial Industries Funds (FIDAX) 84
J.P. Morgan Chase (JPM) 29, 50, 84
J.P. Morgan Fleming Asset Management (JPM) 109
J.P. Morgan Mid Cap Value Fund (JAMCX) 57
Jupiter Research (JUPM) 14

K

Kazaa.com 36
Kinder Morgan (KMI) 57
Kmart (KM) 44
Kockums 102
KPMG 35

L

LatinSource 50
Lehman Brothers (LEH) 35
Lending Tree (TREE) 37
LG Electronics 98
Lipper Holdings 12
Lockheed Martin (LMT) 102
Lowe's (LOW) 40

M

Match.com 37
Maxim Integrated Products (MXIM) 32
McData (MCDT) 40
McDonald's (MCD) 87
McGraw-Hill (MHP) 82, 120
Mechanical Technology (MKTY) 103
Merck (MRK) 103
Mercury International Fund 57
Merrill Lynch (MER) 36, 40, 109
Merrill Lynch Global Small Cap 57
MetLife (MET) 110
Microsoft (MSFT) 20, 32, 36, 45, 50, 96
Miller Brewing 114
Moody's Investors Service (MCO) 39, 82, 110, 112
Morgan Stanley (MWD) 14, 84, 87
Morpheus.com 36
Motorola (MOT) 98
MSN (MSFT) 36, 124
Mutual European Fund (MEURX) 57

N

Napster 36
NBC (GE) 87
Needham & Co. 40
Network Appliances (NTAP) 40
New England Patriots 87
News Corp. (NWS) 87
Nextel Communications (NXTL) 57
Nextrend 38
Nielsen Media Research 87
Ningbo Bird 98
Nokia (NOK) 98
Northrop Grumman (NOC) 102
Nycos 109

O

Oakland Raiders 87, 91, 94
Ocwen Financial (OCN) 118
Outback Steakhouse (OSI) 57
Overture Services (OVER) 44

P

PBHG Mid Cap Value Fund (PBMGX) 57
Pfizer (PFE) 103
Philadelphia Eagles 87
Philips Electronics (PHG) 20
Pitney Bowes (PBI) 117
Possis Medical (POSS) 118
PricewaterhouseCoopers 12, 35
Principal Financial (PFG) 110
Prudential Securities (PRU) 82, 110
Putnam Lovell NBF Securities 84

Q

Quadrangle Group 36
Quaker Aggressive Growth Fund (QUAGX) 57
Quaker City Bancorp (QCBC) 57
Quantum (DSS) 40

R

Rawlings Sporting Goods (RAWL) 82
Raytheon (RTN) 102
Renal Care Group (RCI) 57
Road Runner (AOL) 124
Royal Dutch/Shell Group (RD) 50
Russ Berrie (RUS) 117

S

Safeway (SWY) 44
Samsung Electronics 98
San Diego Chargers 94
Sanford C. Bernstein (AC) 103
Santander Central Hispano 84
SBC Communications (SBC) 44
Scholastic (SCHL) 87
Schroder Ultra Fund (SMCFX) 57
Seagate Technology (STX) 40
Sears Roebuck (S) 57
Segway 42
SEI Investments (SEIC) 32
Sonoco (SON) 117

Sony (SNE) 37
Standard & Poor's (MI) 39, 57, 82, 84, 109, 112, 120
Stanley Works (TWK) 3
Steelcase (SCS) 96
St. Louis Rams 94
Storage Technology (S) 40

T

Taglich Brothers 82
TCL Holdings 98
Teleperformance 50
Thomas Weisel Partner 3M (MMM) 103
Thomson First Call 82
TMP Worldwide (TMPW)
Toyota (TM) 38, 50
T. Rowe Price Group (TROW) 34
Tyco International (TYC)

U

Unilever (UL) 57
USA Interactive (USAI)

V

Value Line Investment (VLIFX) 117
Verizon Communication (VZ) 32, 98
Viacom (VIA) 87
ViewSonic 20
Vita Food Products (VSI) 82
Vivendi Universal (V) 84
Vizental 50

W

Waddell & Reed Advisor Science & Tech Fund 5
Waddell & Reed Financial (WDR) 40
Wal-Mart Stores (WMT)
Walt Disney (DIS) 37, 87
Washington Federal (FE) 57
Washington Redskins 8
Weiss 112
Western Digital (WDC) 4
Williams Capital Group 118
Wilmington Trust (WL) 1
World Wrestling Federation 87
WorldCom (WCOEQ) 44, 110
X
XM Satellite Radio (XMS) 44, 116
Y
Yahoo! (YHOO) 37, 116, 124

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and one August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 100 U.S. subscriber rate \$59.97/year; Canada: CDN \$94.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Canada Post Publication Mail Agreement Number 400125 Postmaster: Send address changes to BusinessWeek. P.O. Box 53235, Boulder, CO. 80322-32

MARKETPLACE

For Ad Rates and Information
Phone: (312) 464-0500
Fax: (312) 464-0512

Advanced Learning

ABSOLUTELY FREE EVALUATION

**Bachelor's -- Master's --
Ph.D. Degrees**
Based on life and work experience.
Confidential -- Fast -- Student
Loans. www.arcc.org
800-951-1203

Advanced Learning

Get Your MBA Through Distance Learning

Reputable British University Accredited
under Royal Charter
One of the World's Largest Distance
Learning MBA Programs
Necessary Study Materials Provided
Access To On-Line Facilities
Support From Local Resource Centers and
Student Networking
Flexible Financing & Payment Plans Available



Today: 800-874-5844 **rdi**
Visit www.rdi-usa.com

Business/Career Opportunities

BUSINESS PARTNER

Manage local office offering unique
financial services for lawsuit protec-
tion and tax savings. Huge income
in residuals. Local appointments
available. No selling required. Talk to
marketing consultants. 24-hr. recording
(800) 653-4497

SIX FIGURES...

Plus Car & Home Benefits
Million \$ Int'l Health Corp. from
Japan. Unlimited Earning Poten-
tial from Your Home Office.
For Business Ownership details, call
800 783-7494

The current SLOW
economy is making
BIG MONEY for loan
and leasing brokers!

Business Loans Equipment Lease
**OWN YOUR OWN
BUSINESS LOAN COMPANY**
No experience needed...We support you!
Receive a **FREE**
15 MINUTE VIDEO TAPE SEMINAR
FULL COLOR INFO PACKET & BROCHURE
CALL TODAY
800-336-3933
www.viewtlc.com
The Loan Consultants, Inc.

Golf

WINTER GOLF?

An MEE sliding
doors, rigid enclosure
will transform your
golf cart to be as
comfortable as your car

Visit
www.meeinc.com
for information

Distance Learning

DISTANCE LEARNING DEGREE PROGRAMS

California Pacific University
100% Off-Campus. Approved BBA, MBA,
MA, DBA. Programs in Business or Health
Administration at the Masters level. Write:
1017 E. Grand Ave., Escondido, CA 92025
Call 760-739-7730 or 800-458-9667
Visit: www.cpu.edu

Business Services

Need a Logo?

mylogo Get a Professional
Custom Designed
LOGO TODAY!
Visa/MC/Amex
Toll-Free: 1-888-869-5646
www.1800mylogo.com

Presentation Tools

CREATE YOUR OWN COMMERCIALS!



www.moviewow.net

Business Software

timeclock software

Stop Spending Too Much on Payroll.

- Fully PC Based Software
- Track Payroll, Attendance,
& Benefits
- Easily Monitor Overtime
- Reduce & Eliminate
Payroll Errors

**Complete Systems
As Low As
\$99.95**

1-800-456-2622
Free Trial & Brochure Available

Copyright 2002-2003 Forte Systems, All Rights Reserved



www.etimeclock.com

Forté
systems

Computer Cables/Accessories

KRISTAMICRO.COM
150 page Catalog!
Visit our website
WIDE SELECTION OF
COMPUTER CABLES AND ACCESSORIES
USB CABLES, CAT 5E, VGA, FIREWIRE, PRINTER,
PS/2, SERIAL, AND MORE.
Key Code: 200

Investment Opportunities

EARN SUBSTANTIAL INCOME!
Split **BIG** Profits
by Locating Foreclosed
Property in Your Area!
NationsWide Real Estate
Decorators
For **FREE** Info. Call (800) 331-4555 x-570

- ✓ Use Our Money!
- ✓ No Experience Needed!
- ✓ No Financial Risk to You!
- ✓ Complete Training Provided!
- ✓ Unlimited Earnings Potential!

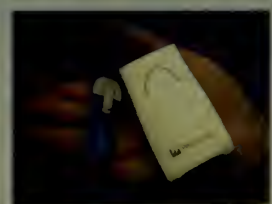
Computer External Drives

ALL THE DATA IN YOUR HAND

Up to 120 Gigabytes!

As featured in BusinessWeek and WSJ

- ✓ Smallest USB external storage device on the market
- ✓ Presentations, movies, music, thousands of pictures
and files at your fingertips in a flash
- ✓ Ideal for professionals and students
- ✓ Carry your work anywhere
- ✓ USB 2.0 blazing speed
- ✓ Backup your files
- ✓ Plug and Play



Wolverine

www.wolverinedata.com

(949) 653-6300

Corporate Discount and Gift Program Also Available

A SCAPEGOAT NAMED STEVE CASE

The resignation of Stephen M. Case as chairman of AOL Time Warner Inc. is triggering a nasty debate over whether he was a visionary who saw the Internet future or a sharpie who traded overvalued AOL wampum for Time Warner's real assets (page 36). Actually, he's both. Case was a Net pioneer who made it possible for millions of Americans to gain access to a new technology for \$20 a month. That he persuaded gullible folks at Time Warner to accept AOL's dreamy stock valuation in 2000 and part with their magazine, movie, and cable assets cheaply, makes him a smart businessman, not a villain.

Case earned his place in history by understanding early on that the promise of the Internet was not in the new technology per se but in making it accessible to consumers. He also popularized some of the Net's most used features—e-mail, instant messaging, and parental control.

But times change. AOL's merger with Time Warner was, in retrospect, unreal. Distributing entertainment and news over many digital platforms—computers, cell phones, and handhelds—was Case's grand vision. Way too grand, it turned out. His hubris extended to the merger itself. The two corporations had vastly different cultures and didn't mesh. Case's band of we-are-the-future managers infuriated the old hands at Time Warner. And for that, Case shares the blame for troubles at the merged company. He bought Time Warner with such inflated Internet currency that once the bubble burst, all of AOL Time Warner went down with it. Shareholders can also thank Gerald V. Levin and other Time Warner executives who drank the Internet Kool-Aid without understanding the technology or the business. Ditto the Time Warner board.

One school of thought argues that AOL is simply a wasting

asset with no future. Broadband gives consumers wide easy access to the Net without AOL, which has lagged switching its customers from dial-up to cable and DSL. Over, AOL has fallen behind rivals such as MSN and Yahoo! e-mail, instant messaging, and other services. One wonders if Case's frequent absence from the company during the early months of the merger to spend time with his brother played any role in all this. We'll never know.

We do know that the current strategy for resurrection isn't working. CEO Richard Parsons is trying to apply a model based on HBO, but so far there's no Internet equivalent of *The Sopranos* in sight. And even if one were at hand, consumers are notorious for loving the Net but hating to do much for stuff on it. Witness the piracy of music and movies.

The best chance for AOL is probably divorce from Time Warner. If AOL were once again free, it could aggressively move to broadband, an absolute first step in survival. It has cut deals with cable and phone companies to package service with their Net access. Time Warner was not willing to sacrifice its own Road Runner high-speed cable access for AOL Broadband. Then AOL must take back its original mission of being family-centered and improve its parental controls and antispam features. AOL also needs new and improved services such as music subscription, mortgage lending, and gambling. Changing its pricing would help, too. It should lower bring-your-own broadband access rates to match MSN. AOL can revive advertising by offering better classifieds and better placement when people search for information on AOL.

One more thing an independent AOL should take back is Steve Case. He deserves a second chance to redeem his dream and his reputation.

TOXIC NEGLECT IN ITALY

Tourists who have visited the rolling hills, farms, and vineyards of Tuscany cannot easily forget them. The incredible light and colors linger in memory. Now what will also linger is the toxic and radioactive waste illegally being dumped on hundreds of sites all over Italy (page 46).

Italy is facing catastrophic environmental damage from illegal trafficking and dumping of industrial waste from the nation's northern factories. Criminal gangs have seized control over one-third of the waste management business, dumping deadly pollutants with impunity in villages, lakes, rivers, and farmland throughout the country.

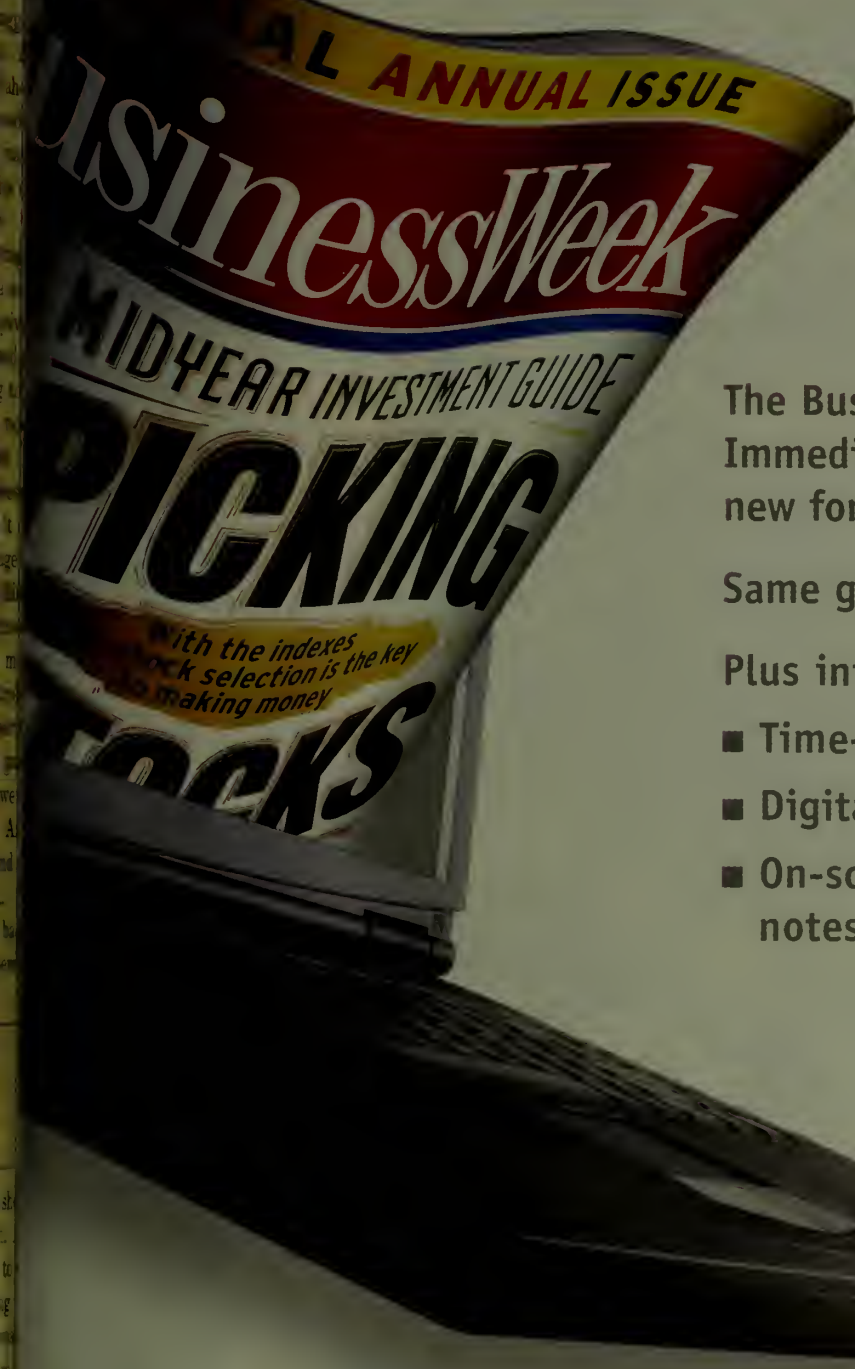
Italian Prime Minister Silvio Berlusconi and the Parliament have done little to stop them. Dumping dangerous waste is only a misdemeanor in Italy. It should be a felony. The country's lawmakers aren't implementing hundreds of European Union environmental regulations that would curb dumping. They should. Rome is underfunding the nation's fledgling

environmental protection agencies. The government should provide more money for inspection and enforcement. The Berlusconi government should end its opposition to the European Parliament's drive to make waste trafficking and dumping a serious crime throughout Europe. Italian motorists mutter that "too many economic interests" are hindering the government inaction.

The truth is that tons of waste are dumped openly in Italy's villages and countryside with little national oversight. Test results for pollution quietly disappear. People are threatened. But there's no political will to fight the criminals.

This will inevitably hurt Italy. The country's biggest economic asset is tourism. Unless its political leaders stop the criminals from dumping filthy, dangerous waste over its wonderful countryside, Italy's image will shift from bucolic and safe to toxic, and the tourists will take their money to less threatening environs.

It's not just what you know,
it's when you know it.



The BusinessWeek Digital Edition.
Immediate delivery in a convenient
new format.

Same great content, same great design.

Plus interactive features:

- Time-saving keyword search
- Digital archive for fast reference
- On-screen highlighter and notes capability

**CURRENT
SUBSCRIBERS:
GO DIGITAL!
CONVERT
FREE NOW!**

Free Trial!

Sample BusinessWeek electronically.
Visit www.businessweek.com/digital.
Call 888-878-5151 for more details.



**AT MANY COMPANIES,
SOME OF THE
HARDEST WORKERS
HAVE THE BEST PARKING SPACES.**

February 3



THE ECONOMY

BURLINGAME PUBLIC LIBRARY



3 0042 05548958 4

McGraw-Hill Companies

BusinessWeek

3 2003

www.businessweek.com

IS YOUR JOB NEXT?

A new round of **GLOBALIZATION** is sending upscale jobs offshore. They include chip design, engineering, basic research—even financial analysis.

Can America lose these jobs and still prosper?



BOND
DS
ANNUAL
BOARD

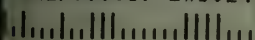
CON
LEY
OF A
TECH
IE

LINES

WEST
HERS
TORM

CK
IONS
ANIES ARE
ING FOR
TER WAY

BXBBGDD ***CR LOT 0006A*C030
LBRLP000097 1#30249



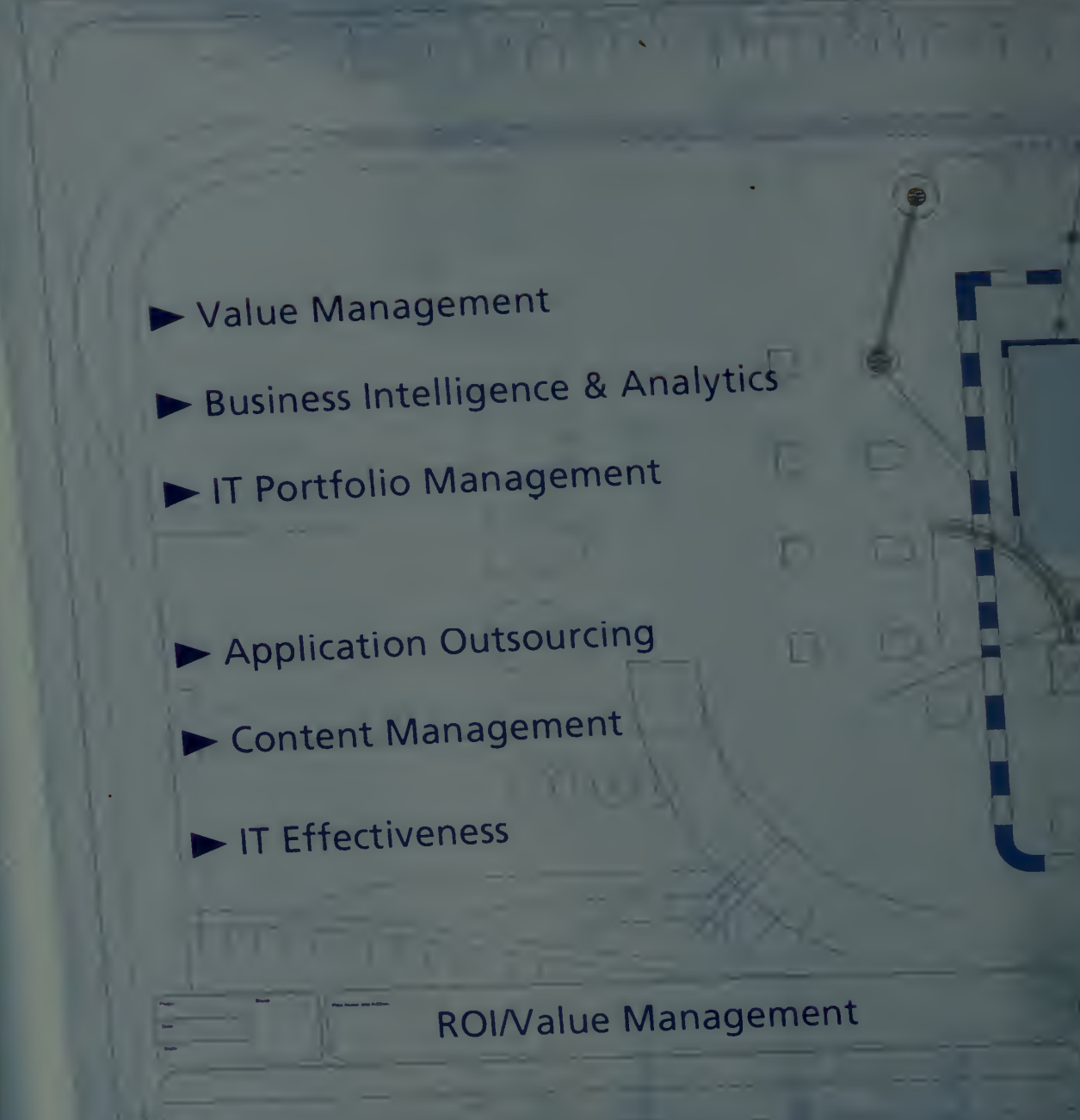
BURLINGAME

JAN 24 2003

BURLINGAME PUBLIC L
80 PRIMROSE RD
BURLINGAME CA

PAGE 50

Keyword: BW

- 
- ▶ Value Management
 - ▶ Business Intelligence & Analytics
 - ▶ IT Portfolio Management
 - ▶ Application Outsourcing
 - ▶ Content Management
 - ▶ IT Effectiveness

ROI/Value Management

DATE DUE

► IT Infrastructure Solutions

► High-Availability Servers

► Mission Critical Managed Services

► Resource Optimization Solutions


FUJITSU

THE POSSIBILITIES ARE INFINITE

us.fujitsu.com

Singapore Airlines presents

SPACEBED

The biggest bed in Business Class.

SpaceBed is being progressively installed on all flights from North America to be completed by June, 2003.

For information, fares and bookings please visit www.sia-spacebed.com





Experience the comfort of the most spacious business class bed in the sky. Raffles Class SpaceBed offers you a new level of luxury with more room to work, relax or sleep. All, of course, while enjoying the inflight service even other airlines talk about.

A great way to fly
SINGAPORE AIRLINES



A STAR ALLIANCE MEMBER



JUST IN TIME FOR
HARVEST SEASON.

MAPS. A LAPTOP.
VITAL EQUIPMENT IN THE
PURSUIT OF NICE WINE.

ADVENTURES IN ON-ROADING

5-STAR WINE

★★★★★
Wines of such remarkable
quality as to be in a class by

1999 SHAFER "RELENTLESS"
SYRAH (NAPA VALLEY)
Deep Blackish color; big,
chewy, blackberry, mocha,
nutty oak flavors; good f
long, utterly riveting tim

PRECIOUS CANCO.

RELENTLESS IS AGED FOR 25 MONTHS IN
FRENCH OAK BARRELS. THEN IT TAKES ITS FIRST STEPS.
THINK WHAT FUN YOU COULD HAVE IN HOME WITH A BLOCK OF CHEESE.

THE NEW NISSAN MURANO. Introducing a distinctive SUV with all-wheel drive, 245 horsepower and the smooth-shifting Xtr

For more info, call 1-800-113-9-81 or visit NissanUSA.com

1999 SHAFER
RELENTLESS SYRAH
38° NORTH 122° WEST



With styling that embraces both highway and lonely road. It's the perfect vehicle for all your on-road adventures.



SHIFT_adventure



we see

a master's in comparative literature.

When the nearest school is 200 miles away, the hurdles to education can be enormous. That's what inspires us to constantly look for ways to use technology to help bring students of any age together with teachers at any location. Learning becomes accessible to everyone, everywhere. microsoft.com/potential

Your potential. Our passion.



Microsoft®



Wellmark Blue Cross and Blue Shield want
an on-line solution to personalize enrollment

Learn more: www.xerox.com/learn For a sales rep: 1-800-ASK-XEROX ext. LEA

© 2002 XEROX CORPORATION. All rights reserved. XEROX® The Document Company® the digital X® and There's a new way to look at it are trademarks of XEROX CORPORATION 36USC220506
Wellmark Blue Cross and Blue Shield is an independent licensee of the Blue Cross and Blue Shield Association, operating in Iowa and South Dakota



XEROX
Worldwide Partner



improve member relations. Xerox created
in no time. There's a new way to look at it.

THE DOCUMENT COMPANY

XEROX®



SAVING STEEL
The man with the
plan page 100

ANIMAL ARSENAL
Toxins are yielding
new drugs page 70

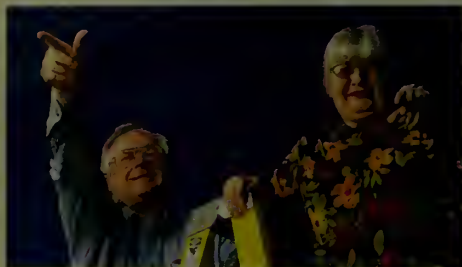


COVER STORY

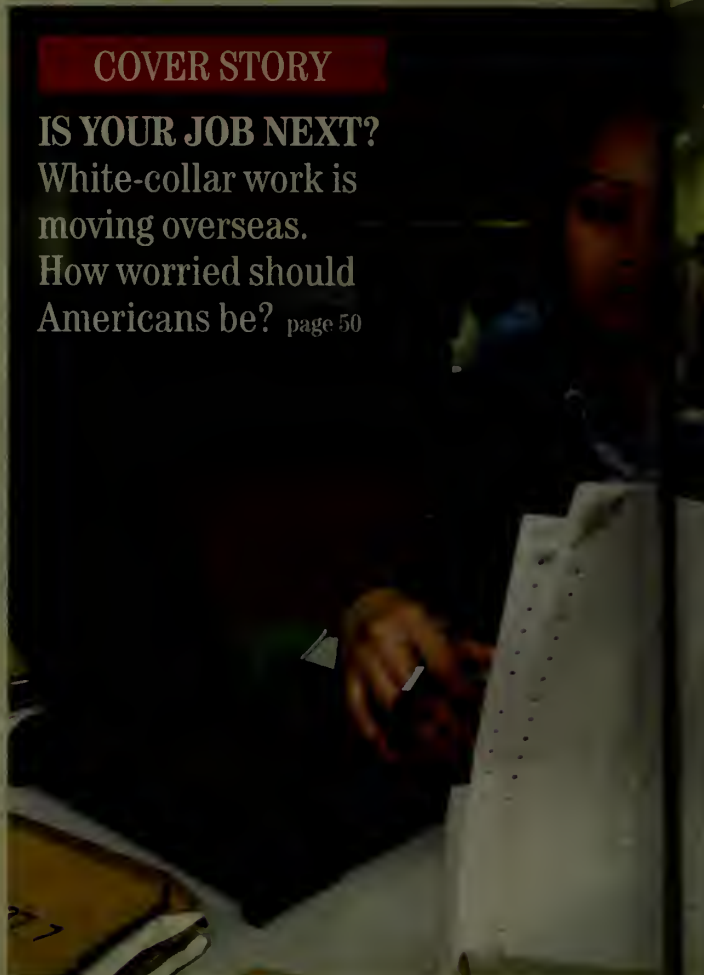
IS YOUR JOB NEXT?
White-collar work is
moving overseas.
How worried should
Americans be? page 50

BusinessWeek

FEBRUARY 3, 2003



PILOTING SOUTHWEST
The low-fare
leader is flying
rings around its
rivals page 66



Cover Story

50 IS YOUR JOB NEXT?

A new round of globalization is sending jobs offshore—but this time they're not blue-collar jobs. Suddenly, chip design, engineering, architecture, and even financial analysis are being done overseas, in India, the Baltics, the Philippines, and elsewhere. The cost savings are enormous, and the workers are skilled, educated, and productive. Can America and Western Europe lose these upscale jobs and continue to prosper?

58 BOEING'S RUSSIA HOUSE

U.S. engineers say the company is handing their jobs away

60 THE BACK, BACK, BACK OFFICE

The Philippines' fastest-growing industry is outsourcing work, from call centers to corporate accounting

News: Analysis & Commentary

34 CAN BUSH CLOSE THE DEAL?

The President's State of the Union will address a world largely unconvinced that an attack on Iraq is justified

37 COMMENTARY: DEFLATION

It may be closer than Greenspan & Co. think—and the Fed's tools for battling falling prices probably won't work

38 COMMENTARY: THE ECONOMY

FYI, Mr. Krugman, the best thing for poor Americans is a fast-growth economy—even if it comes with more inequality

40 THE GOOD GOVERNANCE CRAZE

Companies are jumping on the reform bandwagon ahead of new government regulations—but will the conversion last?

42 THE LITTLE-GUY CREDIT CRUNCH

Bank lending policies for small businesses have tightened recently. And that may wind up having a big overall impact on the economy

43 START OF A DOT-COMBACK?

Venture capitalists are opening their wallets again—but only to Web sites that show results

44 COMMENTARY: APPLE COMPUTER

Forget its dwindling market share. With its distinctive wares, the computer maker has carved out a safe niche for itself

46 IN BUSINESS THIS WEEK

Economic Analysis

30 ECONOMIC VIEWPOINT

Kuttner: Where have all the Keynesians gone?

31 BUSINESS OUTLOOK

U.S.: Foreign trade is getting bigger piece of the American
Australia: The rising dollar

Government

49 WASHINGTON OUTLOOK

President Bush is thinking big about Medicare, too

Sports Business

62 COMMENTARY: THE OLYMPICS

No wonder corporate sponsors are getting scandal fatigue

Management

63 IMPROV AT THE INTERVIEW

Role-playing techniques let you see how applicants handle stress

The Corporation

66 WEATHERING THE STORM

As rival airlines sputter, can Southwest keep its edge?



- ▶ Assessing real estate values page 106
- ▶ Independent stock analysis page 108
- ▶ Staking a spot on the beach page 110
- ▶ The lowdown on MP3 players page 111



WEIGHING OPTIONS

Can companies find better ways to reward employees? page 78



LESS FILLING
Don't expect too much from today's bond funds page 84

SELLING THE WAR

Bush will make a case in his State of the Union page 34



NO TECH ZOMBIE
Commerce One is trying to avoid becoming a Valley has-been page 74

Science & Technology

DEVELOPMENTS TO WATCH

Paraffin-based fuel, herpes remedy, liver-cancer therapy, blood test kit

MEDICINE'S WILD KINGDOM

Potent chemicals from exotic animals are leading to a range of new treatments—but making the jump from toxin to drug isn't easy

Information Technology

WILDSTROM: TECHNOLOGY & YOU

You, too, can be a Webmaster with new software tools

WAY DOWN—IN THE VALLEY

How software maker Commerce One is working to escape from the ranks of the boom-time relics

Finance

EXPLORING OPTIONS

Public companies are under intense pressure to revamp their pay packages. But there are no easy solutions

COMMENTARY: SECURITIES

Investment banks are increasingly exempt from antitrust laws—and that's bad for investors

Mutual Funds Scoreboard

84 THE BOND FUND SCOREBOARD

Dark days may lie ahead for bonds, but *BusinessWeek's* A-list of the 102 best funds is a guide to the safest financial havens

Marketing

96 THE PEPSI BLUE GENERATION?

With its flagship cola flagging, Pepsi is piling on the new brands

The Workplace

100 SAVING AMERICAN STEEL

Union chief Gerard has brokered a bold restructuring of the industry—by gutting retiree health insurance

101 LTV: ROSS PROVES 'EM WRONG

A financier's contrarian approach to heating up U.S. steel mills

BusinessWeek Investor

105 DIVIDENDS

Charitable deductions, microwave toaster, private placements

106 TAXED THROUGH THE ROOF?

Your property may be unfairly assessed

108 STOCKS: RESEARCH REVOLUTION

Independents link up for strength while keeping their unique spins

110 THE SKINNY ON SUMMER RENTALS

Prices may well be lower, but you'll have to act fast for the best homes

111 THE ABC's OF MP3's

So much music in so little space—and soon, direct-from-TV players

113 THE BARKER PORTFOLIO

Voices from Main Street that the SEC should be listening to

114 MARCIAL: INSIDE WALL STREET

Features

14 UP FRONT

21 READERS REPORT

22 CORRECTIONS & CLARIFICATIONS

24 BOOKS

Mokyr: *The Gifts of Athena*

26 BUSINESSWEEK BEST-SELLER LIST

116 FIGURES OF THE WEEK

117 INDEX TO COMPANIES

118 EDITORIALS

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

Updated every business day at www.businessweek.com



Visit the BusinessWeek 50 area of our site for news, investing tools, and more at

www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ SCHWAB'S LIFE:

Discount-broker pioneer Charles Schwab talks with BW's Steve Shepard



■ AMERICA'S FACE:

Census Director Charles Kincannon on how immigration is fueling U.S. population growth



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your handheld! Get news from Daily Briefing, S&P data, and more. Visit AvantGo.com to sign up



Find quick links to everything on this page at the Feb. 3, 2003, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/03_05/online.htm

Living with Risk

Many CEOs are afraid to move, concerned about today's global turmoil. It's time for them to get over those fears, understand that the world is dangerous, and get back to business



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

Street Wise: Despite the wireless sector's recent stock rally, the industry's fundamentals are still going in the wrong direction



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Sound Money: When sermonizers denounce "gambling" on the stock market, pay no heed. A little responsible risk-taking is a good thing

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

Smart Answers: Taking up a no-rent lease could mean big trouble. You often get what you pay for



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Byte of the Apple: Steve Jobs wowed the Macworld faithful with more amazing stuff, but will all the new hardware, software, and stores be distracting?



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

Q&A: Wharton professor Thomas Donaldson discusses what's needed to make ethics a permanent part of B-school curriculums

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

China Journal: While China surely has serious problems, including its ailing banks and rising inequality, pessimists overstate the negatives

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Commentary: Corporate leaders are defending college affirmative-action programs. They know ethnically mixed workforces pay dividends

Lufthansa Miles & More[®]
A credit card. 800 437-0180.

Wherever you want to go, we can pinpoint your destination.

327 destinations in 89 countries.

With 15* U.S. gateways and the best on-time performance at our hubs in Frankfurt and Munich, Lufthansa is your ticket to the world. Add our 75 years of experience in providing attentive, award-winning service and you'll be sure to get wherever you want to go relaxed and on time. You'll also earn miles in Lufthansa Miles & More[®] or United Mileage Plus.^{††} No wonder we're the world's number one choice for international travel. See your travel agent, call Lufthansa at 800 645-3880 or visit www.lufthansa-usa.com.

*Nonstop service Portland-Frankfurt starts March 31, 2003.

††In accordance with the terms and conditions of the programs.

There's no better way to fly.™



Lufthansa

A STAR ALLIANCE MEMBER 

Up Front



EDITED BY
SHERIDAN PRASSO

GATES: biggest beneficiary of all: Microsoft Chairman Bill Gates.

Microsoft's plan to pay a 16¢-a-share dividend for the first time would give Gates \$100 million—and he wouldn't have to pay the \$38.4 million tax on it. Microsoft CEO Steven Ballmer would get to keep \$14.6 million of his dividend otherwise owed in taxes.

Other execs with big potential savings, based on the number of

shares they own, are:

■ Micky Arison, Carnival cruises—\$36.8 million

■ Phil Knight, Nike—\$17 million

■ Sanford Weill, Citigroup—\$6.4 million

■ John Hess, energy company Amerada Hess—\$5.5 million.

With such windfalls in the offing, normally stingy CEOs may end up dispensing dividends more generously—for shareholders and for themselves.

Louis Lavelle

PROFIT & GLOSS

DIVIDENDS, THE ULTIMATE PERK

JUST WHEN YOU THOUGHT there was no way to pile on more CEO perks, along comes yet another: Bush's plan to eliminate income tax on dividends. For CEOs of the nearly 350 companies in the S&P 500 that pay dividends, their tax savings would add up to more than \$200 million. And that doesn't include the

THE LIST LOST BACKERS

Lots of stadiums have lost or switched corporate sponsorships since the height of the boom. Here are those in the NFL:

TEAM	WHERE THEY PLAYED IN 2000	WHERE THEY PLAY NOW	WHAT HAPPENED
CINCINNATI BENGALS	Cinergy Field	Paul Brown Stadium	Cinergy spent \$6 million in 1996 for naming rights. It now sponsors a convention center.
ST. LOUIS RAMS	Trans World Dome	Edward Jones Dome	TWA paid \$36.7 million in 1995 for 20-year rights. Bankrupt in 2001.
BALTIMORE RAVENS	PSINet Stadium	Ravens Stadium	PSINet agreed in 1999 to pay \$105 million for 20-year naming rights. Bankrupt in 2001.
TENNESSEE TITANS	Adelphia Coliseum	The Coliseum	Now-bankrupt Adelphia Communications was to have paid \$2 million a year until 2013 for naming rights.



TALK SHOW "Very disappointing. We've had Enron, Ty WorldCom. We've had the most tumultuous year ever in Corporate America. Despite all that, the [SEC] is softening rather than toughening, the rules.... It's just amazing."

—Lynn Turner, ex-chief accountant, Securities & Exchange Commi.

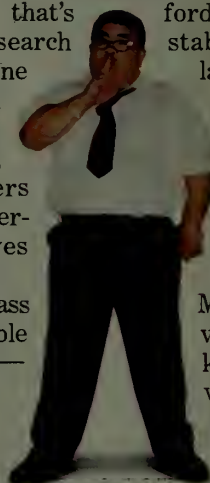
IPO WATCH

DESPERATELY SEEKING GOOGLE

IT WASN'T SO LONG AGO THAT high-tech startup executives clamored to get an invite to investment banking boondoggles where they could ski and hobnob with bankrollers at locales such as Aspen. Now, some of these folks don't want to meet bankers even for coffee. At least, that's the case at online search engine Google. It's one of the few tech startups likely to go public later this year, and hungry bankers are viewing the offering like a lion eyes meat.

So Google's top brass has placed a veritable moratorium on talks with bankers. No While there's banks

no formal proclamation bankers say they have effectively shut out of discussions with senior Google, expected to raise revenues of more than million in 2003, says it is a rush to go public. I plenty of cash and ca ford to wait for a stable market b launching an IPO. S ees there don't to waste time ting about s thing that's m away. "The idea stay focused on business," says C McCaffrey, Goo vice-president for keting. Put and way: Back off, ban Linda Himel and Ben E



OPTION CONNIPTION

AN ACCOUNTING BATTLE HEATS UP

A NEW WEAPON IS BEING added to the arsenal of what's likely to be the biggest accounting battle of 2003: whether companies should count employee stock options as an expense. A study of 1,445 companies over 30 years by compensation experts Sibson Consulting finds the most commonly accepted method of expensing and valuing options, Black-Scholes, is way off base: Only 3% to 5% of its estimates of actual gains proved accurate years later, and usually understated their value.

That's fueling the anti-options-expensing crowd: Silicon Valley and other big

stock-options issuers that options can't be properly used. "There's no correlation between what Black-Scholes would predict and what actually happens," says Sibson study author Blair Jones.

But the new International Accounting Standards Board (IASB) is pushing for expensing to put options on a par with other compensation.

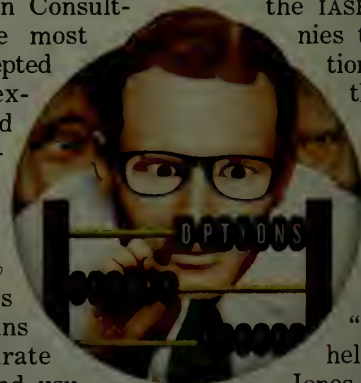
Vice-Chairman Tom Johnson, former CFO at Citicorp,

says the IASB wants companies to calculate option values only at their date of issue and does not care what happens after that. Do this method stock options can be valued.

"They sure hell can be," says Jones, "certainly a

better than they currently are, which is zero." Fighting words, and the fighting

just begun. Nanette Byrnes





YOUR
CUSTOMERS
EXPECT
YOUR ENTIRE
ENTERPRISE
TO REVOLVE
AROUND
THEM.

(SOUNDS LIKE A SOLID
BUSINESS PLAN TO US.)

Every customer is an investment. But are you investing wisely? mySAP™ CRM, the only open and integrated CRM solution, makes valuable customer data available to your entire organization. In real time. So the back office knows what the front office knows, which makes it easier to give customers what they need. A lot more efficiently. And for a lot less money. Visit sap.com or call 800 880 1727 to find out more about mySAP CRM.

THE BEST-RUN BUSINESSES RUN SAP



Up Front

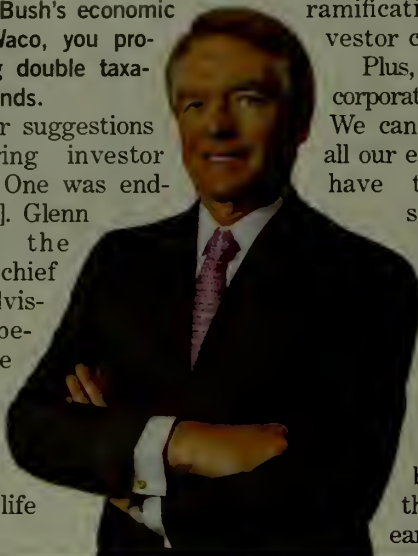
Q&A

WHAT CHARLES SCHWAB TOLD GEORGE BUSH

Charles Schwab, founder and co-CEO of the firm that bears his name, spoke to Editor-in-Chief Stephen Shepard on Jan. 16 at BusinessWeek's "Captains of Industry" series at New York's 92nd Street Y. Excerpts:

At President Bush's economic summit in Waco, you proposed ending double taxation of dividends.

I had four suggestions [for restoring investor confidence]. One was ending [the tax]. Glenn Hubbard, the President's chief economic adviser, also believed [in the idea] and glommed on to it. It has really taken on a life of its own.



Do you think it has a chance of passing?

I think in some form it does. Every portfolio will rise 15% to 20% just with the very notion that dividends have some tax-exempt status. It will raise all boats.

That will have incredible ramifications for investor confidence.

Plus, it will change corporate governance. We can't just retain all our earnings. We'll have to pay the shareholders some reward.

It will bring more discipline to book-keeping. The real companies will be the ones that have real earnings.

BOOB TUBE

A BRIGHT SPOT FOR AILING CNBC

WITH THE STOCK MARKET floundering, it's fair to say business news is in the tank. Financial-news network CNBC saw daily viewership drop 25%

in 2002 from 2001, according to Nielsen Media Research.

But one show in the CNBC roster is picking up steam: the often-invigorating, oddly hip *Kudlow & Cramer*, which airs at 8 p.m. EST. Its hosts are the pinstriped, neo-conservative economist Lawrence Kudlow and the slightly disheveled, hyperbolic journalist,

DRAWN & QUARTERED

Brooklyn Museum



YOU REALIZE IF WE GET ANY MORE CANDIDATES, WE'LL HAVE TO GET AN SUV JUST TO HAVE ROOM FOR THE BUMPER STICKERS.

What were the three other ideas?

The most you can write off on your personal income tax is \$3,000 of net loss for a year. Most of us investors have a lot more losses than \$3,000. We pay full taxes when things go up, [so] give us the ability, when things are bad, [to] take the write-off also on the negative side.

[Another] was to accelerate the time that 401(k)s and IRAs could add to their contribution at a faster rate. That's coming in the bill, but it's going to take a number

of years. And I was calling for a code of conduct for every financial-services company. That didn't go too far.

How do you divide up the CEO job with David Pottruck?

He carries a huge amount of weight in making the day-to-day decisions. I work with him on strategy. I work with him on new products, new ideas, and so forth.... He eventually will become [sole] CEO.

For a full transcript of this interview, go to businessweek.com

Democrat, and former hedge-fund manager James Cramer. Admittedly, its ratings are small, but viewership jumped 25% in the second half of 2002 vs. the first half, according to Nielsen. "It's an impressive spike," says independent media critic Jack Myers.

Media watchers say Cramer, with his artfully gesticulated, red-faced rants, and Kudlow, who is more reserved, are perfect spokesmen for badly burned investors. "Their anger may fulfill some sort of deep-seated need for those who have been screwed by the market," says Myers.

The two aren't exactly blemish-free themselves. In the early '90s, Kudlow resigned as chief economist for Bear Stearns, later citing cocaine and alcohol use. And Cramer has a known unsavory trading practices in his recent book. Not everyone is a fan, either. Some wags refer to them as "Krudlow and Screamer."

Perhaps, as *The American Spectator* recently observed, their show is "just the acid bath Washington and Wall Street currently need."

Marcia Vicker



THE BIG PICTURE

GERMANS MISS THEIR MARKS

A year after the complete rollout of the euro, Europeans differ widely on the single currency. Here's the share of people who are happy with the euro in:



WHOOOSH



The world's fastest workgroup color printer has arrived.
The Xerox Phaser® 7300. You'd better hang on.
There's a new way to look at it.

...v color speeds through any office at 30 ppm.
Xerox Phaser® 7300 tabloid color printer
...ts all speed records for workgroup color
...ating.* And at 37 ppm black and white, it
...minates the need for multiple printers.
...get consistent 2400-dpi color that's always
...ght, sharp and brilliant. The Phaser 7300



...automatically selects the correct paper size
for any job, up to 12 x 18. So experience a
colorful flurry of productivity with the
Phaser 7300. Or let your office soar with our
full line of reliable, award-winning network
printers by calling 1-800-362-6567 ext. 1905 or
visiting xerox.com/officeprinting/bird1905

THE DOCUMENT COMPANY

XEROX®





xy2-

EMERGENCY
CONTROL



5678 9010
10/05

27/10/05

1/11/05



imagination at work



N-CHIEF: Stephen B. Shepard

IG EDITOR: Mark Morrison

T MANAGING EDITORS:

nathan, Frank J. Comes, Robert J. Dowling, Kathy Rebello

CTOR: Malcolm Frouman

CORRESPONDENTS: James E. Ellis

EDITOR: Bob Arnold

L PAGE EDITOR: Bruce Nussbaum

ONOMIST: Michael J. Mandel

EDITORS: James C. Cooper (Bus. Outlook), Peter Elstrom, ss, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Sasseen, Ciro Scotti, John Templeman, Lee Walczak ton), Elizabeth Weiner

WRITERS: Catherine Arnt, Stephen Baker, Robert Barker, mstein, Anthony Bianco, John A. Byrne, Gene G. Marcial, Paul Raeburn, Gary Weiss

ICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. ed.), James Mehling, Seymour Zucker (Sr. contributing Christopher Farrell, Gene Koretz (Contributing eds.)

ATIONAL: Patricia Kranz (European Edition ed.); Michael (Sr. ed.); David Rocks, Pete Engardio, (Sr. news eds.); dy (Sr. writer); Cristina Lindblad (Europe), John Koppisch (ance)

TE EDITORS: Robin Ajello, Dan Beucke, Diane Brady, Nanette Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, Henry, Gerry Khermouch, Robert McNatt, Ira Sager, Eric Marcia Vickers

EDITOR: Larry Lippmann

ING ART DIRECTOR: Jay Petrow

ART DIRECTOR: Steven Taylor

ATIONAL ART DIRECTOR: Christine Silver

MENT EDITORS: Books: Hardy Green. Computers: Spencer E. Ante. ss: Timothy J. Mullaney. Finance & Banking: Emily Thornton, Timmons. Industries: Adam Aston. Internet: Heather Green. ment: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Tom Lowry. People: Susan Berfield. Personal Finance: Lewis

Carol Marie Cropper, Susan Scherrek, Anne Tergesen. ards: Frederick F. Jepsen. Telecommunications: Steve Rosenbush. nt: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin

BUTING EDITOR: Mark Hyman (Sports Business)

EDITORS: Jennifer Merritt, Kimberly Weisel

DITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy Jim Taibi (Asst. chief), Aleta Davies, Doug Royalty (Sr.), Joy Katz, Maggs, Anne Newman, David Pengilly, Monica Roman, Lourdes

no. Researchers: Maria Chapin, Gail Fowler, Aida Rosario

CTION COPY EDITORS: Larry Dark (Chief), Céline Keating, Robert nberg (Deputy chiefs), Alethea Black, Sarah B. Davis, Robert S. i, David Purcell, Victoria Rubin

on Besom, Alice Cheung, Gary Falkenstern (Assoc. dirs.), Jamie Elsis, utierrez, Ron Plyman (Asst.). Graphics: Joan Danahe (Director), Rob Deputy dir.; Laurel Dannis-Allen, Joe Calviello, Alberto Mena, Ray

off Himmelfarb. Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), ontana. Nita Le, Rich Michiel, Leo Nietter, Joseph Rhames

D EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne D'Aprix, an Moore, Andrew Popper, (Assoc.); Sarah Greenberg Morse (Asst.); nganta Eiroa (Traffic mgr.); Burt Hughes, Mindy Katzman, Lori k (Researchers)

RIAL OPERATIONS: Susan Fingerhut (Director), Ken Machlin- nd (Mgr.), Karen Butcher, Francisco Cardoza, Thomas R. Dowd, n R. Lebron, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Walton (Edit map mgr.), Mark Lang

RIAL TECHNOLOGY: Y. Steve Ben-Ari, Yo-Lynn Hagood, Steven thy, Anoop Srivastava, Craig Sturgis, Mauro Vaisman

E: Michael Mercurio (Managing ed.), Arthur Eves (Creative dir.), A. Clem, John A. Dierdorff, John Johnsrud; Will Andrews, Heather Barry, Beauchamp, Jane Black, Joleen Colpa, Roger Franklin, Brian

Olga Kharif, B. Kite, Matt Kopit, James Kutz, Jessica Loudon, McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne ille, Alex Salkever, David Shook, Amey Stone, Joshua Tanzer, Amy Kathy Vuksanaj

ESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad. Boston: m C. Symonds (Mgr.), Faith Keenan. Chicago: Joseph Weber (Mgr.), O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent),

t Berner, Pallavi Gogoi. Dallas: Wendy Zellner (Mgr.), Stephanie

n Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), David n. Los Angeles: Ronald Grover (Mgr.); Larry Armstrong, Christopher eri (Sr. correspondents); Arlene Weintraub. Philadelphia: Amy Barrett

i. Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. (Mgr.), Linda Himelstein (Sr. correspondent), Peter Burrows, Cliff

rs, Ben Elgin, Joan O'C. Hamilton, Jim Kerstetter, Louise Lee. ington: Paula Dwyer (Deputy mgr.), John Carey (News ed.), Rich Miller

nter), Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. pondents); Amy Borrus, Laura Cohn, Stan Crock, Paul Magnusson,

ndra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Woellert, ine Yang, Douglas Harbrecht (Online Sr. news ed.), Beth Belton

ne News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Kripalani

i. Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Christine Tierney. g Kong: Mark L. Clifford (Mgr.), Frederic Balfour, Bruce Einhorn.

on: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Geri Smith (Mgr.). ow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.), Carol Matlack, y Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Ihlanw.

apore: Michael Shari (Mgr.). Tokyo: Brian Bremner (Mgr.), Robert

(Contrib. ed.), Chester Dawson, Irene M. Kunii

TORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager:

ara Boynton. Communications: Heather Carpenter, Christine Fountaine,

ew Palladino, Nancy Sheel. Information Services: Jamie B. Russell

r), Susann Rutledge (Research mgr.), John Cady (Technology mgr.),

Katzenberg, David Polek, Susan Zegel. Office Manager: Roseyn Kopit.

ders Report: Yvette Hernandez. Reprint Permission: Nancy Johnson.

ial Asst. to Editor-in-Chief: Christine Summers

PUTTING MANAGERS
IN THEIR RIGHTFUL PLACE

"The best (and worst) managers of the year" (Cover Story, Jan. 13) should be required reading for all CEOs and corporate board members in the country. Robert L. Nardelli, who took over at Home Depot Inc., did get a well-deserved thumbs-down in "The Welch legacy," but he should also have been among the worst managers.

Nardelli was obviously trying to show those country boys at Home Depot how to run their company General Electric Co.-style. He did that with disastrous consequences.

Home Depot store personnel, prior to Nardelli's arrival, always helped with suggestions on what to buy for a certain job and where to find it. Now, if I can find someone at all, I frequently get shrugs or half-baked answers to my questions. A friend of mine, a general contractor, now takes most of his business to Lowe's.

E. W. Spieckerman
Pineville, La.

"Best manager" Rich Barton has done an impressive job of building Expedia Inc. into an Internet success story. But based on my terrible experience as an Expedia customer, I recommend that he work to improve Expedia's customer service, especially if it wants to win in the business-travel market.

Mark Manzo
Stevenson, Wash.

Steve Ballmer is one of America's "best managers" because Microsoft Corp. sales grew 12% in fiscal 2002. Hello? Microsoft is a monopoly. Of

course there was growth. And its settlement with the Justice Dept. means it can continue to fob off substandard software on us for even higher prices. A real success story! America should be proud.

William B. Fankboner
La Quinta, Calif.

THIS TOP ACCOUNTANT
DESERVES MORE CREDIT

I recently had the privilege of speaking with David Henry about a story he was writing on the American Institute of Certified Public Accountants and, specifically, its CEO, Barry C. Melancon ("Bloodied and bowed," Finance, Jan. 20). Shortly after the interview, I was stunned to read that *BusinessWeek* included Melancon in its list of the worst managers for 2002 (Cover Story, Jan. 13). Melancon led our profession in supporting the creation of a new Public Company Accounting Oversight Board. He was also instrumental in garnering the support of those most affected—witness the AICPA announcement on Jan. 17, 2002, in support of the Securities & Exchange Commission plan to create such a board.

This is leadership, great leadership, which you should recognize.

James Castellano
St. Louis

Editor's note: The writer is the immediate past chairman of the AICPA board of directors.

Since you named L. Dennis Kozlowski as one of the best managers of 2001, I am assuming that you used the same performance measures in naming Barry



PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins

SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox

VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge

VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson

VP, CONTROLLER: Kevin P. Pascale

VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau

VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carvalho

VP, MARKETING: Patricia Crocker France

VPs, SALES: Mark A. Flinn (Eastern region and BWT), Grant A. Getz

(Midwest reg.), Robert J. Maund (West reg.), Lou Tosto (Eastern region)

VP, INTERNATIONAL/NORTH AMERICA SALES: Rik Gates

VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maraviglia

VP, MANAGING DIRECTOR-ASIA: Alan Lammin

VP, SALES DEVELOPMENT: Kimberly L. Styler

VP, CONSUMER MARKETING: Joyce Swingle

VP, BUSINESS DEVELOPMENT: Geoffrey D. Broderick

GENERAL MANAGER, BUSINESSWEEK ONLINE: Peggy White

The McGraw-Hill Companies

BusinessWeek

FEBRUARY 3, 2003 (ISSN 0007-7135) *** 3818

Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2301127039. U.S. subscription rate: 1 year \$59.97; 2 years \$99.97; 3 years \$119.97. Canadian subscription rate: CDN \$94.95 per year; 2 years CDN \$157.95; 3 years CDN \$189.95. Mexico Subscription 1 year U.S. \$135.00, Brazil 1 year U.S. \$150.00, all other Latin America countries 1 year U.S. \$170.00; 2 years U.S. \$250.00. Outside of U.S., Canada and Latin America: U.S. \$199.00 per year. Single copies/back issues, \$9.95. Call 1-800-288-9867 or email: busweek@mhinc.com. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579

Postmaster: Send address changes to *BusinessWeek*, P.O. Box 52325, Boulder, CO 80322-3235. Periodicals postage paid at New York, N.Y., and at additional

mailing offices. Canada Post Publication Mail Agreement Number 40012501.

Registered for GST as The McGraw-Hill Companies, Inc. GST #R123075673. Copyright 2003 by The McGraw-Hill Companies, Inc. All rights reserved. Title registered in U.S. Patent Office. European Circulation Center, McGraw-Hill House, Maidenhead, Berks, England. Telephone: 01628-22431; Telex: 848640.

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, Chairman, President, and Chief Executive Officer; Kenneth M. Vittor, Executive Vice President and General Counsel; Robert J. Bahash, Executive Vice President and Chief Financial Officer; Frank D. Pengilase, Senior Vice President, Treasury Operations.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$2.00 per copy of each article. Send payment to the CCC. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address requests for customized bulk reprints to *BusinessWeek* Reprints, 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3148. ISSN 0007-7135/00/\$9.95

PRINTED IN THE U.S.A.

Readers Report

CORRECTIONS & CLARIFICATIONS

In "Why Europe is even more sluggish than the U.S." (Economic Viewpoint, Jan. 13), the correct date for the Constitutional Convention in Philadelphia should have been 1787.

"Why ethics is also B-school business" (Management, Jan. 27) misstated the number of MBAs Northwestern University's Kellogg School of Management says it expels for ethical breaches in a given year. The school occasionally expels students, but rarely more than one in a year.

Melancon as one of the worst managers of 2002. As a practicing CPA in a local 55-person firm, a member of the AICPA board of directors, and chairman-elect of the board, I have a working perspective on Melancon's performance. Initiatives explored and dollars spent by Melancon were member-driven and approved by the 23-member board and 265-member governing council. That the credential initiative cited in your report was voted down by the membership at large is a testament to the fact that members, unlike stockholders, drive the organization. Leaders like Barry Melancon provide them with opportunities.

Scott Voynich
Columbus, Ga.

STEREOTYPES, ITALIAN-STYLE

Your comparison of Joseph P. Nacchio to Joe Pesci—an actor known almost exclusively for his Mafia and other crime roles—exploits a harmful and negative stereotype ("The fallen," in "The best (and worst) managers of the year," Cover Story, Jan. 13). I have known and worked alongside Mr. Nacchio for the past five years and know him to be a caring and honest individual who has made tremendous contributions in the civic and philanthropic arenas.

John Salamone
Executive Director
National Italian American Foundation
Washington

Editor's note: Nacchio is a member of NIAF's board of directors.

WHAT PARENTS OF AUTISTIC KIDS REALLY WANT

Families are not attempting to sue just any manufacturer of vaccine components as a way to circumvent the Vaccine Injury Compensation Program (VICP), as you suggest in "Why inocu-

lating Big Pharma from vaccine lawsuits makes sense" (News: Analysis & Commentary, Jan. 13). Parents are seeking compensation only from the manufacturer of the additive Thimerosal. The VICP limits claims to within the first three years after the onset of symptoms. The link between Thimerosal and autism was not theorized until very recently because of the slow systemic degeneration caused by mercury toxicity. There are thousands of families past the three-year limit who have only recently come to believe that their children's autism results from mercury toxicity due to Thimerosal overdosing.

Thimerosal was removed from the vaccines in the standard pediatric schedule in March, 2001. Because a diagnosis of autism is typically not made until age 3, it is too soon to conclude that reduced exposure to Thimerosal will have an effect in the autism epidemic. Like thousands of parents of children with autism, I pray that it does.

Max Salinas
Keswick, Va.

ONE WAY TO REPAIR TELECOM DEREGULATION

Having spent more than 40 years between a local Bell telephone company and AT&T, the solution to the local-access dilemma seems obvious to this old monopolist ("Phone giants let the fur fly," Information Technology, Dec. 9). The fallacy in the competitive-local-access model promised by deregulation would be apparent to everyone if city telephone lines still ran above ground as they did in 1900. There is just not enough space for all the lines that are needed to cover the last mile to every customer. The answer is to consider separating the regional Bell operating companies' local-access network from their product and services businesses. The local-access network part of the business would again become a regulated monopoly offering a tariffed price schedule to all potential users.

Herman Anschuetz
Washington

THE THREAT FROM MAINLAND CHINA

Your reader's suggestions that mainland China poses no threat to Taiwan and that U.S. concern about the situation is unwarranted are sadly incorrect. ("Greater China: Progress—and misplaced anxiety," Readers Report, Jan. 13, in response to "Greater China," Special Report, Dec. 9). Beijing has put

pressure on other nations to exclude Taiwan and prevent its people from having a voice in the global community. The mainland has more than 400 missiles targeted at Taiwan, and has rebuked Taiwan's repeated goodwill gestures and calls for friendly negotiations across the Taiwan Strait.

Taiwan cherishes and depends on support and friendship of the U.S. to ensure peace and security in the Taiwan Strait and in the Asia-Pacific region. Were the U.S. to ignore the high tensions still present in the region, the consequences for the people of Taiwan and the world could be the result. Certainly, Taiwan's people wish to increase trade and improve relations with mainland. But they also know the importance of safeguarding their hard-won rights and freedoms.

Jung-tzung
Taipei Economic & Cultural Office
New York

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archives starting in 1991 are available on the World Wide Web at: www.businessweek.com and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

We prefer to receive letters via e-mail, without attachments. Writers should disclose any connection or relationship with subject of their comments. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

E-mail: bwreader@businessweek.com
Fax: (212) 512-6458

Mail: *BusinessWeek* Readers Report, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>
(click "Manage Your Account")

For individual subscriptions, corporate subscriptions, and other inquiries:

Phone: (800) 635-1200 Fax: (641) 842-6101
E-mail: bwcustomerservice@neodata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416
Website: www.resourcecenter.businessweek.com

E-mail: bw_group@businessweek.com
Latin America

Phone: Int +44 1444 475 649

Fax: Int +44 1444 475 506

E-Mail: Businessweek.subs@qss-uk.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

E-mail: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use;

\$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

E-mail: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm



WHY YOU WON'T SEE NYL ON NYSE, NASDAQ
OR ANY OTHER STOCK EXCHANGE FOR THAT MATTER.

You won't see New York Life listed on a stock exchange because we're a mutual company. Being mutual means we're owned by our policyholders, not stockholders. Rather than focusing on quarterly results, we care about the long term. After you buy a New York Life policy, you may not need us for years, or even decades. But when you do, we'll be there. To us, our policyholders are really buying a promise - that we'll be here to pay a claim, fund your retirement, or pay for nursing home costs. That's why New York Life focuses on what really matters in the long term: financial strength and integrity. You can trust that we'll keep our promises to you, just as we have for over 155 years.



The Company You Keep.®

WWW.NEWYORKLIFE.COM/MUTUALITY

To arrange a discussion with a New York Life agent, call 1-888-963-7946.

THE GIFTS OF ATHENA
Historical Origins of the Knowledge Economy
 By Joel Mokyr
 Princeton University • 359pp • \$35

HOW EGGHEADS LAID THE GOLDEN EGG

From the fierce conflict taking place over federal budgetary questions, you might deduce that government actions are the key determinants of economic health. Yet, according to Joel Mokyr, the impact of fiscal policy pales in comparison with that of ideas and innovations. Indeed, there's barely a mention of taxes or deficits in Mokyr's fascinating, magisterial investigation into the wellsprings of modern economic growth and improved living standards, *The Gifts of Athena: Historical Origins of the Knowledge Economy*. What's truly important, he says, are the institutions, policies, and networks that generate and disseminate "useful knowledge."

Mokyr, a professor of economics and history at Northwestern University, is hardly a household name, but he's a key member of an influential group of economic historians that includes Douglass North, Richard Nelson, David Landes, Nathan Rosenberg, and Paul David. They have been grappling for years with the most compelling questions in economics: How does long-run economic growth occur? Why did the Industrial Revolution take place in the West? What factors explain why some nations are rich and others are poor?

Not surprisingly, *The Gifts of Athena* is a big-idea history book, a complex tale that interweaves science, technology, economics, sociology, and political science. Early on, Mokyr makes a distinction that frames the rest of his discussion: the difference between "propositional" knowledge and "prescriptive" knowledge. The first comprises beliefs about natural phenomena, such as scientific discoveries and practical insights into the properties of materials, heat, motion, and the like. Prescriptive knowledge is all about techniques—the manipulation of recipes, such as how

to write a piece of software. The growing interplay between these two forms of knowledge, says Mokyr, transformed the world economy after the 1800s. "The historical question is not whether engineers or artisans 'inspired' the scientific revolution or, conversely, whether the Industrial Revolution was 'caused by science,'" says Mokyr. "It is the strong complementarity, the continuous feedback between the two types of knowledge, that set a new course."

The great divide in world history, of course, was the Industrial Revolution—or, as Mokyr calls it, the Industrial Enlightenment. To be sure, there was economic growth prior to the 1800s, and there were periods of remarkable innovation, as in medieval Europe and imperial China. But before the Industrial Revolution in the West, periods of growth would end in stagnation. Population growth caught up with raised agricultural yields, and fearful aristocratic and bureaucratic elites acted to block technological progress. What changed?

Mokyr focuses on scholars, philosophers, authors, scientists, and other intellectuals. In this era of scientific discovery, they believed in both comprehending and manipulating nature. But their ethos also supported the exchange of knowledge. The cost of gaining access to information plunged, thanks to the printing press, the formation of informal scholarly communities across European countries, and the creation of formal societies, such as the Institution of Royal Engineers.

While chronicling gee-whiz innovations and their impact on productivity, Mokyr shows how technology transformed the way people live and work.

For instance, before 1750, most agricultural workers in Western Europe worked at home: The house and the plant were the same. Then came the rise of manufacturing, separating the two. Behind the factory system was the fact that it proved cheaper to transport people to one location where vital knowledge could be imparted, rather than to transmit learning to their houses. Mokyr's book is mostly historical, but he occasionally addresses issues of the present. For example, he sees transportation/shared-knowledge calculus changing: "Modern communication and information technology are weakening the many advantages the 'factory' has had over

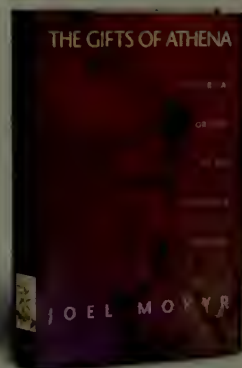
the household," says Mokyr, leading to telecommuting. That's hardly a new idea, but Mokyr brings fresh authority to the notion.

Like most other economists, Mokyr is a big believer in the benefits of openness from freer trade among nations to shared technical information. He also understands the obstacles, and pays considerable attention

to an examination of the forces resisting technological change. He doesn't consider such opposition irrational. After all, when the steam thresher threatened the livelihood of 1830s British farmers and gentry, they rioted. Similarly, an alliance of German blacksmiths, horse breeders, and railroad investors slowed the automobile's introduction in Germany, where it had been invented by Karl Benz and Gottlieb Daimler. Often, it is political power that determines whether a technology finds its way into the mainstream, and how quickly.

A couple of caveats: *The Gifts of Athena* is a dense and sometimes struse work. And even well-educated readers may grow peeved as they reach repeatedly for the dictionary. Even when pondering questions of economic growth, I've found myself reflecting again and again on the book's wisdom. This is one that will stand the test of time.

BY CHRISTOPHER FARRELL
 Farrell is a contributor to *economics editor*



KEY TO THE WEST'S GROWTH SPURT: AN EXPLOSION IN THE EXCHANGE OF KNOWLEDGE

Multi-million dollar yacht



America's Cup champion

IT'S TIME FOR EXPENSIVE TO GET REACQUAINTED WITH VALUABLE.

Mercury Interactive can transform your IT systems from an expense into a valuable asset.

Your company's software applications and IT infrastructure are a huge investment. And now there's a way to get more value out of your existing information technology. It's called Business Technology Optimization (BTO). It's the way to maximize the quality of your IT-enabled business processes, minimize IT expenditures, and increase the return on your existing IT systems. Mercury Interactive's Optane™ is the world's first BTO software suite. Optane enables you to optimize the entire technology lifecycle — including testing, production tuning and performance management. Mercury Interactive is one of the top software companies in the world and 75% of the Fortune 500 already use our software. To optimize your business technology, visit www.mercuryinteractive.com/bto2



©2003 Mercury Interactive Corporation. Mercury Interactive, the Mercury Interactive logo and Optane are trademarks or registered trademarks of Mercury Interactive Corporation in the United States and/or select foreign countries.

The BusinessWeek Best-Seller List

HARDCOVER BUSINESS BOOKS			LAST MONTH	MONTHS ON LIST	PAPERBACK BUSINESS BOOKS			LAST MONTH
1	LEADERSHIP Rudolph W. Giuliani (Talk Miramax • \$25.95) <i>Hizzoner speaks.</i>	1	3		1	FAST FOOD NATION Eric Schlosser (HarperCollins • \$13.95) <i>The bad news on burgers.</i>	1	
2	GOOD TO GREAT Jim Collins (HarperBusiness • \$27.50) <i>How run-of-the mill companies make the leap to excellence.</i>	3	15		2	THE TIPPING POINT Malcolm Gladwell (Back Bay • \$14.95) <i>What turns an idea into a hot trend.</i>	2	
3	WHO SAYS ELEPHANTS CAN'T DANCE? Louis V. Gerstner Jr. (HarperBusiness • \$27.95) <i>The turn-around at IBM, by the company's ex-CEO.</i>	2	2		3	RICH DAD'S RETIRE YOUNG RETIRE RICH Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$17.95) <i>Plan ahead.</i>	7	
4	EXECUTION Larry Bossidy, Ram Charan (Crown Business • \$27.50) <i>Making strategies work.</i>	4	7		4	WHAT COLOR IS YOUR PARACHUTE? Richard Nelson Bolles (Ten Speed • \$17.95) <i>The 2003 edition of the enduring job-search bible.</i>	4	
5	TAKE ON THE STREET Arthur Levitt, with Paula Dwyer (Pantheon • \$24.95) <i>The former SEC chairman on accounting sleight of hand and wise investing.</i>	5	3		5	REAL ESTATE RICHES Dolf de Roos (Warner • \$17.95) <i>Why buildings are better investments than stocks.</i>	3	
6	THE ONE-MINUTE MILLIONAIRE Mark Victor Hansen, Robert G. Allen (Harmony Books • \$19.95) <i>Chicken soup for the investor.</i>	6	3		6	THE RICHEST MAN IN BABYLON George S. Clason (Signet • \$6.99) <i>Save 10% of what you earn—then pay your bills.</i>	5	
7	DILBERT AND THE WAY OF THE WEASEL Scott Adams (HarperBusiness • \$24.95) <i>Scheming, manipulating, fudging, and other fun at the office.</i>	9	3		7	THE 9 STEPS TO FINANCIAL FREEDOM Suze Orman (Three Rivers • \$13.95) <i>Stop worrying and learn how to manage your money.</i>	8	
8	MEMOIRS David Rockefeller (Random House • \$35) <i>The banker-statesman's life and times.</i>	7	3		8	J.K. LASSER'S YOUR INCOME TAX 2003 J.K. Lasser Institute (Wiley • \$16.95) <i>Fire up that calculator.</i>	9	
9	RICH DAD'S PROPHECY Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$21.95) <i>Coming soon—a very big crash!</i>	8	3		9	THE E-MYTH REVISITED Michael E. Gerber (HarperBusiness • \$16) <i>A systems approach for small-business success.</i>	6	
10	NOW, DISCOVER YOUR STRENGTHS Marcus Buckingham, Donald O. Clifton (Free Press • \$27) <i>How to bolster your true talents.</i>	10	24		10	SMART COUPLES FINISH RICH David Bach (Broadway • \$14.95) <i>Manage your money after you've walked down the aisle.</i>	—	
11	LESS IS MORE Jason Jennings (Portfolio • \$24.95) <i>Boost the bottom line via efficiency and employee loyalty.</i>	—	1		11	SMART WOMEN FINISH RICH David Bach (Broadway • \$14.95) <i>A nine-step program, by a Wall Street veteran.</i>	—	
12	WEALTH AND DEMOCRACY Kevin Phillips (Broadway • \$29.95) <i>How the rich and the politically powerful have collaborated to perpetuate privilege.</i>	14	6		12	THE POWER OF FOCUS Jack Canfield, Mark Victor Hansen, Les Hewitt (Health Communications • \$12.95) <i>Success without burnout.</i>	10	
13	FISH! TALES Stephen C. Lundin, John Christensen, Harry Paul, with Philip Strand (Hyperion • \$19.95) <i>Reel in more of the "Fish! Philosophy."</i>	—	8		13	STARTING AN EBAY BUSINESS FOR DUMMIES Marsha Collier (Wiley • \$24.99) <i>Earn money from home!</i>	—	
14	THE 21 IRREFUTABLE LAWS OF LEADERSHIP John C. Maxwell (Thomas Nelson • \$22.99) <i>A minister's down-to-earth rules.</i>	13	23		14	SUZE ORMAN'S FINANCIAL GUIDEBOOK Suze Orman (Three Rivers Press • \$11.95) <i>With self-evaluations and worksheets.</i>	—	
15	BUSINESS Daniel Goleman et al. (Perseus • \$59.95) <i>An eight-pound encyclopedia of ideas and solutions.</i>	—	1		15	HOW TO MAKE MILLIONS IN REAL ESTATE IN 3 YEARS STARTING WITH NO CASH Tyler G. Hicks (Berkely • \$14) <i>Make way, Donald Trump!</i>	13	

LONG-RUNNING BEST-SELLERS

HARDCOVER BUSINESS BOOKS

WHO MOVED MY CHEESE?
Spencer Johnson (Putnam • \$19.95)

FISH! Stephen C. Lundin, Harry Paul, John Christensen (Hyperion • \$19.95)

FIRST, BREAK ALL THE RULES Marcus Buckingham, Curt Coffman (Simon & Schuster • \$27)

RAVING FANS Ken Blanchard, Sheldon Bowles (Morrow • \$20)

PAPERBACK BUSINESS BOOKS

RICH DAD, POOR DAD
Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$15.95)

THE 7 HABITS OF HIGHLY EFFECTIVE PEOPLE
Stephen R. Covey (Fireside • \$14)

RICH DAD'S CASHFLOW QUADRANT
Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$17.95)

THE ONE MINUTE MANAGER

Kenneth Blanchard, Spencer Johnson (Berkely • \$12.95)

RICH DAD'S GUIDE TO INVESTING

Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$19.95)

THE MILLIONAIRE NEXT DOOR

Thomas J. Stanley, William D. Danko (Pocket Books • \$7.99)

BusinessWeek's Best-Seller List is based on a survey of chain and independent booksellers that carry a broad selection of books on economics, management, sales and marketing, small business, investing, personal finance, and careers. Well over 1,000 retail outlets nationwide are represented. Current rankings are based on a weighted analysis of unit sales in December. Titles that have been on the Best-Seller List for more than two years appear as Long-Running Best-Sellers.

Reviews and more are available on AOL (Keyword: BW) or www.businessweek.com



DO YOU KEEP ALL YOUR
OLD BUSINESS CARDS.
THAT SO YOU REMEMBER
WHERE ALL YOUR 401(K)S ARE?

we moved on. But what about your money? Fidelity Rollover ExpressSM
an easy, simple way to put yourself in charge of your retirement savings.
Work with an experienced retirement consultant, call, click, or visit
Fidelity today. Because you're not just invested. You're **personally invested.**SM

FIDELITY ROLLOVER EXPRESSSM

EASY ROLLOVER PROCESS
EXPERIENCED RETIREMENT SPECIALISTS
MORE INVESTMENT CHOICES

CALL A FIDELITY RETIREMENT SPECIALIST TODAY

800 FIDELITY

| FIDELITY.COM

| 88 INVESTOR CENTERS



Brokerage Services, Member NYSE, SIPC

312915

Now you can
e-mail and
make calls
wherever you go.



Introducing the BlackBerry™ handheld with a built-in phone from T-Mobile. Now you can send and receive company e-mail and make phone calls wherever you go. All because we have the world's largest all-GSM/GPRS wireless network. See for yourself at t-mobile.com or call 1-866-GO-4-TMOBILE.

T-Mobile
from life

© 2004 T-Mobile USA, a division of T-Mobile USA, Inc. The T-Mobile and T-Mobile logo are the exclusive property of T-Mobile USA, Inc. All other marks are the property of their respective owners. T-Mobile is a registered trademark of T-Mobile USA, Inc. All other marks are the property of their respective owners. T-Mobile is a registered trademark of T-Mobile USA, Inc. All other marks are the property of their respective owners.



BLACKBERRY

STEPHEN H. WILDSTROM

syou@businessweek.com

YOU, TOO, CAN BE WEBMASTER

In the old days of computing, when managers wanted a new report from a corporate database, they had to send a request to the data-processing department, then wait for it to get done. The rise of PCs destroyed that centralized system.

There is one corner of information technology, however, where it lingers on: making a change to a Web page. Whether it's updating a price on a public Web site or posting a memo on an intranet used for internal communications, any little change requires a Webmaster, who will get to the job in his or her own good time. Web authoring is so complicated, and the havoc that can be wreaked when attempting to change pages is so great, that Web editing has remained the province of a computer priesthood.

Macromedia, a publisher of high-end Web software tools (macromedia.com), wants to change that. It has designed a program called Contribute that makes it easy for people without expertise in Web editing to update and even create pages. Meanwhile, a startup called Homestead Technologies (homestead.com) is making it easier for small businesses whose employees have little or no technical expertise to create smart-looking Web sites.

Contribute, at \$99 per user, with volume discounts available, allows an administrator to give individuals or groups access to specific Web pages. By sending a small file called a connection key to authorized users, the administrator automatically configures copies of Contribute for appropriate access to the site.

Compared with Dreamweaver, Macromedia's professional Web authoring tool, or even Microsoft's ubiquitous FrontPage, Contribute is a very simple Web-page editor. It limits you to the bare necessities: creating or editing text and placing images, tables, or links on the page. Most Web pages are fragile—a small mistake in placing an image or adding text can cause the whole page to collapse into a jumble. Contribute protects you with the ability to undo multiple changes.

More important, it ensures that all work is done on copies so that no damage can be done unless you deliberately upload a messed-up page to the Web server.

Not surprisingly, Contribute functions best when working on a site created with Dreamweaver. It understands the structure of Dreamweaver pages, particularly Dreamweaver templates that a Webmaster can design to leave some areas of a page open to editing while ruling others, such as banners and menus, off-limits. Contribute works with sites created with other software, including FrontPage, but it's not as slick or easy as with Dreamweaver designs.

Contribute works best for businesses that have a skilled Webmaster to create the site and do any heavy-duty maintenance. Homestead is aimed at those who want to create a site without investing in a lot of training, yet don't want the same cookie-cutter look that comes from using Web tools offered by service providers such as America Online.

Homestead uses a combination of software on the server and a program loaded on your PC to create and edit Web pages. And its latest version overcomes one of the nastiest problems that bedevils people trying to learn HTML, the Web's layout language—the tendency of images, text blocks, and other objects to go where they want rather than where you want to put them. Homestead features a ton of

tools to create items such as checkboxes and selection lists that would normally require some programming. There are things it doesn't do particularly well, though. There is no easy way to get text to flow around a picture, for example. But on the whole, it offers remarkable flexibility and power for such a simple tool.

Homestead is a subscription service starting at \$7.99 a month for a simple site, with a variety of options for bigger sites, such as more storage, e-commerce support, and site hosting, which allows you to sport a Web address like www.some-company.com rather than www.some-company.homestead.com.

The programs are intended for different audiences, but each is a big help in making Web-page creation accessible to anyone in a company who has content to offer rather than just those with technical skills. They are welcome additions to the world of software tools.



no new tools
how the
skilled to
create and
sily update
smart-looking
eb sites

online

A COLLECTION OF
ST COLUMNS and
line-only reviews of
technology products, go
Technology & You at
www.businessweek.com/
chnology/

BY ROBERT KUTTNER

WHERE HAVE ALL THE KEYNESIANS GONE?



THE CURE:
What the U.S. needs is some old-fashioned priming of the pump. Instead, we're getting an irrelevant debate over tax cuts and deficits

Do big deficits increase interest rates? There is a strange debate on this question going on between the Brookings Institution and *The Wall Street Journal* editorial page. The context, of course, is President George W. Bush's proposed \$674 billion tax cut.

The *Journal*, the temple of supply-side economics and advocate of the Bush plan, insists that deficits don't affect interest rates. Their editorials point to the Reagan years in the 1980s, when deficits were high and rates low. Supply-siders believe that reduced taxes on capital energize investment and growth—generating enough tax revenue to pay for the deficit. The *Journal* accuses Brookings of practicing “Rubinomics,” after the former Treasury Secretary under Bill Clinton, Robert Rubin, who made budget surpluses a fiscal Holy Grail.

The objects of the *Journal*'s scorn are two Brookings economists, William Gale and Peter Orszag, authors of the recent influential paper *The Economic Effects of Long-Term Fiscal Discipline*. Gale and Orszag contend that increased deficits must hike interest rates. Despite their disclaimer that they're not troubled by short-term deficits, Gale and Orszag are essentially resurrecting the old “crowding out” theory. Under that premise, government borrowing competes with private investment for a fixed supply of capital. Keynesians add that it all depends on whether the economy is at full employment.

But crowder-outers believe that government borrowing increases the overall demand for money; hence, the price of money—interest rates—must rise, too. Higher rates, according to Gale and Orszag, then raise the cost of capital, neutralize the benefit of the tax cut and actually reduce the net growth rate.

What's bizarre about this debate between the *Journal* and Brookings is the absence of a third party—those who believe in Keynesian economics. As several generations of Keynesians have pointed out, the actual effect of government deficits on interest rates depends on how slack the economy is and on what the Federal Reserve does. In a weak economy, government borrowing can energize consumer demand and economic growth without putting upward pressure on prices. Without a crystal ball that tells you consumer and investor confidence and Fed policy, you can't predict how deficits will affect rates, much less with the precision that Gale and Orszag suggest in their work.

The Keynesian dynamic still applies, but whatever happened to its champions? Here the story

shifts from economics to politics. Moderate Democrats such as Rubin and Clinton were over to the “crowding out” theory because of the fiscal and political circumstances of the 1980s when the budget was still suffering from immense deficits bequeathed by Reagan. George Bush I. Rubin had an implicit deal with the Fed to trade lower deficits for lower rates. Centrist economists also saw the big surplus as insurance for Social Security's solvency.

Today, however, the economy is soft. Since Bush II took office, the U.S. has shed 2.7 million jobs. We have a jobless recovery. Consumer spending is about at its limit. State budget deficits now approaching a collective \$80 billion, will require hikes in taxes and cuts in services, further reducing consumer demand. An Iraq war will not generate much stimulus. And Bush's proposed tax cut delivers little stimulus this year.

In this political and fiscal climate, the Brookings view is not so much wrong as unhelpful. It is axiomatic that large permanent public deficits are damaging. But it should be just as axiomatic that weak economies need significant, temporary pump priming that results in big deficits. Though Gale and Orszag concede as much, their passion is reserved for deficit reduction, their paper is ammunition for the view that cutting deficits is virtuous policy in all seasons. Paradoxically, this leaves President Bush the *Journal* editorial page in the anomalous of pseudo-Keynesian apologists for deficits.

We are at precisely the phase of the business cycle when large deficits are needed. In fact, you can indeed grow your way out of huge public debt. The U.S. did it after World War II and interest rates stayed low. But contrary to Bush's premise that tax cuts on dividends will energize capital spending, the overhang of surplus capacity suggests the need for a Keynesian recovery led by public and private spending that stimulates demand.

In the current circumstance of stalled job creation, tapped-out consumers, and capacity overhang, the Bush/*Journal*/supply-side view is foolish, and the Gale-Orszag resurrection of “crowding out” is irrelevant. We need serious deficit spending this year—not tax cuts that favor dividends but spending that gives relief to consumers and state budgets and energizes demand. This is the debate Brookings should be prosecuting. Yes, the long-run fiscal effects of Bush's tax cuts would be economically dubious, but as the master himself famously said: “In the long run, we're all dead.”

Robert Kuttner is co-editor of *The American Prospect* and author of *Everything for Sale*

AMES C. COOPER & KATHLEEN MADIGAN

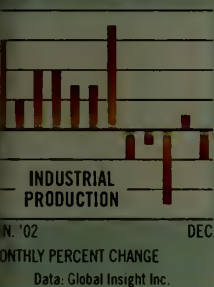
IMPORTS GET A BIGGER PIECE OF THE AMERICAN PIE

The competition means domestic producers can't raise prices

U.S. ECONOMY

When the Commerce Dept. releases its first look at fourth-quarter gross domestic product on Jan. 30, the report likely will show solid growth in consumer spending, government outlays, homebuilding, and perhaps a slight gain in inventories. But real GDP probably grew at an annual rate of 1% or so, the slowest quarterly pace since 2002. Some economists even expect a decline in real GDP. Is this another case of fuzzy math in Washington?

INDUSTRY ENDS 2002 IN A VERY WEAK NOTE



manufacturing sector (chart).

Although Commerce must make estimates for some November data, the monthly numbers available show that the fourth quarter domestic demand expanded at a healthy clip but that a widening of the net-exports deficit subtracted about one percentage point from real growth. In a way, the fiscal and monetary stimulus of the past two years has helped global producers as much as U.S. companies.

Luckily, the trade gap may not deteriorate as rapidly in 2003 as it did last year, thanks to the recent fall in the dollar and faster economic growth abroad. But in the long run, more manufacturing facilities will keep leaving the U.S. And now, even service jobs are heading overseas (page 50).

In addition, U.S. companies will continue to find it difficult to raise prices as long as their foreign competitors keep prices steady to defend market share. That's causing a diverging inflation outlook between goods and services.

WEAK GDP DATA

surely will add fuel to the ongoing tax debate. The White House will use the report as evidence that the economy needs immediate stimulus, while Democrats will argue the plan does not give the economy what it badly needs: new jobs. The report, however, won't hold much sway with members of the Federal Reserve. Policymakers will

be more focused on the outlook for 2003, which calls for stronger growth. The Fed is very likely to keep interest rates steady at its Jan. 28-29 meeting.

Trade's drag on the fourth-quarter economy was skewed by last year's dock strike on the West Coast. Because ships could not move for most of October, the trade deficit for that month shrank to \$35.2 billion, from \$37.1 billion in September. Dockworkers began to catch up with loading and unloading cargo in November, causing the trade gap for goods and services to surge to a record \$40.1 billion. Imports jumped by 4.9%, to \$123.3 billion, while exports rose 1.1%, to \$83.2 billion.

Even before the dock strike, though, imported goods were growing at a faster clip than exports (chart). The runup mostly reflects the stronger growth in the U.S. economy vs. the rest of the world. U.S. consumers increased their spending by about 2.5% in 2002, creating a bigger market for foreign goods. This trend won't change in 2003.

Foreign manufacturers have also benefited from the strong U.S. dollar, which makes many imports cheaper. From 1995 to early 2002, the dollar jumped by 41% compared with a trade-weighted basket of other currencies. The average price of nonpetroleum imports fell by 11% over the same period. Since March, 2002, the dollar has dropped by 12% on exchange markets. Import prices have stopped falling, but they have yet to rise in any meaningful way.

TAKEN ALONE,

an increase in imports isn't a problem. In fact, since it's a sign of healthy domestic spending, a rise in imports is positive news for most economies. But in the case of the U.S., exports are doing little to offset the advance of imports. Because the dollar value of imports outnumbers exports by a nearly 3-to-2 margin, exports must grow one-half faster than imports just to keep the trade deficit unchanged.

Export growth in 2003 may pick up if, as expected, overseas economies recover. In particular, the euro zone may grow about 2%, more than twice its 2002 pace. And Japan might expand instead of contracting as it did in 2002. A reduction of geopolitical risks will also help the trade gap. Oil prices should fall sharply

IMPORTS CONTINUE TO OUTPACE EXPORTS



Business Outlook

when the strike in Venezuela ends and if the tensions between Iraq and the U.S. are resolved quickly.

For now, though, domestic goods-producers are back in trouble. Industrial output fell 0.2% in December, the fourth drop in five months. Manufacturing activity alone slipped 0.3%. Most of the decline was in auto production. Excluding vehicles, factory output was up 0.2%. But the sector still has not gotten the traction needed to launch a full-fledged recovery.

Manufacturers would benefit from better pricing power. Rising profits would lift their own bottom lines and enable more companies to expand their capital budgets. A decline in shipments of nondefense capital goods and a drop in the output of business equipment indicate business investment on equipment and plants was probably a drag on real GDP growth last quarter.

UNFORTUNATELY, widespread pricing power has not returned. Total consumer prices rose 0.1% in December from November, or only 2.4% from a year ago. Core prices, which exclude food and energy, increased just 1.9% for the year, the slowest rate since 1999.

Look beneath the numbers, and you'll see another example of foreign trade's effect on the economy. Core goods prices have fallen 1.5% over the past year, while core services are up 3.4%. Not surprising, goods production is where foreign competition is the greatest. The service side of the economy faces fewer inroads

from foreign rivals. In fact, the U.S. enjoys a mon trade surplus in services to the tune of about \$4 bill

The split between goods and services prices is pushing and pulling consumers' budgets. New items consistently cost less. But maintaining those goods keeps squeezing household budgets more and more (table). For example, a television set is 10.6% cheaper than it was a year ago, but monthly cable service is 7.3% more expensive.

The Fed is watching the areas of falling prices to formulate ways to guard against widespread deflation (p 37). On the plus side, the recent slide in the do may open the way for goods producers to begin raising their prices. But that could mean falling goods prices will no longer offset the increase in service inflation.

Even so, the lack of U.S. pricing power is another example of how foreign trade has become a huge influence in this economy. The fourth-quarter drag from the trade deficit may not be repeated in this quarter, even the second, but U.S. monetary and fiscal policy must now be made with an eye toward the global consequences of domestic decisions.

WHAT'S CHEAPER, WHAT'S NOT

	PERCENT CHG
ALL GOODS	-1
TELEVISION SET	-10.6
MAN'S SUIT	-1
NEW CAR OR TRUCK	-2
FURNITURE AND BEDDING	-1
SERVICES**	3
CABLE SERVICE	7
DRY CLEANING AND LAUNDRY	2
CAR INSURANCE	9
DOMESTIC SERVICES***	4

*PERCENT CHANGE FROM DEC '01 TO DEC '02

**EXCLUDING COST OF SHELTER

***INCLUDES HOUSEKEEPING

Data: Labor Dept

AUSTRALIA

MORE GREENBACKS FOR KANGAROO JACK

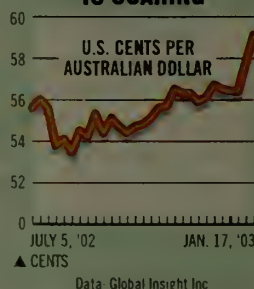
The growing tensions in the Mideast have created an unlikely beneficiary: the Australian dollar. Since August, 2002, the Aussie dollar has soared 10% against the U.S. dollar, to a 2½-year high of about 59 U.S. cents.

The Australian currency is seen as a safe haven for investors hoping to avoid potential turmoil in financial markets if the U.S. invades Iraq. In addition, the nation enjoys one of the most favorable outlooks for economic growth. Real gross domestic product is expected to grow 3% to 3.5% this year, after probably expanding by just under 4% in 2002.

Domestic demand is fueling

growth. The nation's retail organization said store sales rose 4% in December from a year ago. And homebuilding is surging, thanks to relatively low interest rates and government subsidies.

THE AUSSIE DOLLAR IS SOARING



for the third month in a row.

The gains in retailing and housing have offset declines in exports and agriculture. Exports have been hurt by falling commodity prices and the slowdown

Solid fundamentals are supporting consumer spending. Jobs increased by 52,100 in December, making 2002 the strongest year for hiring since 1989. The unemployment rate, at 6.2%, is near a 12-year low, and consumer confidence in January rose

in the U.S., Australia's largest trading partner. Meanwhile, the worst drought in a century has drastically curtailed farming and ranching. And deadly wildfires are spreading.

Despite the rapid gains in demand, inflation is quite tame. Consumer prices in the fourth quarter were 3% above their year-ago levels, little changed from the 3.1% rise for all of 2001.

Instead of watching inflation, the Reserve Bank of Australia is focusing more on the surge in mortgage lending. If housing remains strong in early 2003 and if the global economy begins to recover, the RBA is likely to lift its policy interest rate, currently at 5.25%. But higher rates will only make the Aussie dollar more attractive, ensuring a continued rise in the exchange markets.



CUSTOMERS ARE AN INVESTMENT. MAXIMIZE YOUR RETURN.

PeopleSoft Customer Relationship Management lets you capitalize on every customer interaction across your enterprise.

Only PeopleSoft CRM provides real-time information on all aspects of your customer relationships. It integrates business processes seamlessly across your organization to determine the most profitable ways to manage customers. Simply, PeopleSoft CRM turns every point of customer contact into a profit opportunity.

Learn more by visiting us at www.peoplesoft.com/crm or call 1-888-773-8277.

Customer Relationship
Management

Supply Chain
Management

Financial Management
Solutions

Human Capital
Management

Application
Infrastructure

PeopleSoft®

CAN HE CLOSE THE

Bush's State of the Union will address a world opposed to an attack on Iraq

It opens to cheers and bipartisan backslapping. All too often, though, a State of the Union address lapses into a mind-numbing recitation of a President's real or imagined accomplishments. But if you're planning to tune in to George W. Bush's annual report to the nation on Jan. 28, banish all thoughts of a dreary script. Far from the usual laundry list, this speech is shaping up as one of the pivotal moments of Bush's Presidency—a crucial chance to make the case for war against Iraq amid growing public doubts.

Although Bush will talk up his domestic agenda, the focus of his remarks will be Saddam Hussein. Despite his reputation as a savvy salesman, the President is having a tough time convincing the world of the need for immediate military ac-

tion. In fact, support is ebbing, in part because of Allied appeals to give U.N. weapons inspectors more time. But such a delay is not without consequences for the weak U.S. economy. Business executives insist that indecision over Iraq is leading them to put off investment and hiring.

Seldom have the stakes been higher for an American leader. "The State of the Union gives a President a huge audience," says former Reagan Chief of Staff Kenneth M. Duberstein. "He has to lead, inspire, and sell people on the notion that Saddam requires action now—and U.S. troops on the ground for a long time afterwards."

Still, the polls signal danger. "Bush faces a crisis of public opinion," says pollster John Zogby. In a Jan. 8-12 Pew Research Center survey, only 42% of respondents said the President had clearly explained why military force may be necessary, down from 52% in September. "Selling this policy is an enormous challenge," says a Bush adviser. "We always knew there would be some dis-

solution of support." The White House hopes to turn the tide with a stirring Bush speech followed by weeks of stirring in the heartland. The goal: Turn attention from the U.N.'s weapons to the idea that Iraq's 11-year pattern of deception is a trigger-point for intervention. "Keep in mind that the inspectors are not in the country on a scavenger hunt for weapons," Deputy Secretary of State Richard L. Armitage said on Jan. 21. "They are there to confirm that Iraq has destroyed... the weapons that



**WHY BUSH
STILL HAS
TO MAKE
THE CASE
FOR WAR**



FEBRUARY 3, 2003

**AN ARMORED TASK
FORCE PREPARES FOR
AN EXERCISE NEAR THE
IRAQI BORDER IN KUWAIT**

DEAL?

...w exist." That's the message the Administration will be broadcasting as part of its drive to shift the burden of proof back onto Iraq.

Just a day before Bush's speech, on Jan. 27, chief U.N. arms inspector Hans Blix is slated to deliver a potentially damning report on Iraq's cooperation with Security Council demands to disarm. But rather than heed Blix's call for months of further inspections, Bush & Co. view the report's likely reference to Iraqi deception as a sufficient cause for action.

The President's drive for support has been vastly complicated by antiwar sentiment, especially in Europe. France and Germany, backed by Russia and China, insist that Bush needs a second U.N. vote before using force. Even British Prime Minister Tony Blair, America's strongest ally, prefers, but will not likely demand, a second vote. "What is very clear from all of our polls is a profound distrust of Washington—and Bush in particular," says Peter Kellner, chairman of London-based pollster YouGov Ltd.

Also weighing heavily on the White House is a war's impact on the economy. With forecasters scaling back growth estimates for the fourth quarter of 2002 to the 0.5%-or-less range, the drag on investment can't be dismissed. In a Jan. 21 meeting with economists, Bush conceded that war jitters were hurting growth—which he views as another reason to get on with it.

Many business leaders agree. Continuing uncertainty "will paralyze capital markets," frets Allegiance Telecom CEO

MESSAGE Bush has allowed the debate to focus on the absence of "smoking gun" evidence that Saddam Hussein has weapons of mass destruction rather than his providing proof that he has disarmed.

IT'S THE BEEF? The U.S. has been unwilling or unable to provide intelligence that would help U.N. arms inspectors unearth weapons of mass destruction. As a result, most Americans don't believe the President has made a strong case for war.

QUAGMIRE By agreeing to work through the U.N. to get Iraq to disarm, Bush has been forced to lose Security Council members who favor giving arms inspectors more time and a U.N. vote to authorize a war.

BLAIR'S BLUES British Prime Minister Tony Blair, America's staunchest ally, has started to waver. Under heavy pressure at home to pull back from the brink, he has adopted a new position: U.N. approval before using force is preferable.

SMARTER DEMOCRATS By asserting that an Iraq war could set back the fight against al Qaeda, the Dems have come up with a way to oppose Bush on Iraq without seeming unpatriotic.

KOREAN CONUNDRUM The Bush Administration's willingness to negotiate with a nuke-rattling Pyongyang has left the President open to charges of employing a double standard with Saddam.

News: Analysis & Commentary

Royce J. Holland. "That's worse than bad [economic] news." Even if the Pentagon's scenario of a quick war—say, four months or less—pans out, the short-run effects won't be pretty. Oil prices, already \$34 a barrel, could gyrate and global markets sink in the first weeks of the battle. And consumers could curb purchases as the nation stays home, glued to TV sets.

"People say: 'Gosh, you're a defense company—war with Iraq must be good for you,'" says Boeing Chairman and CEO Philip M. Condit. "War is not good for us. Clearly, it would have a negative impact on commercial air travel."

Just the anticipation of war is hurting some businesses. Daniel R. DiMicco, CEO of steel-maker Nucor Corp., says commercial builders cite war fears in delaying new orders.

"The best thing would be to get this over with one way or another," he says.

In reality, the idea that war worries are undermining the economy is overstated. A string of other woes is retarding growth, among them overcapacity in tech and telecom, a whiff of deflation (page 37), and a weak global economy. "If you could magically remove Iraq [as a factor], you might get an initial spurt," says Stuart G. Hoffman, chief economist at PNC Financial Services Group. But that's "no magic elixir."

Still, with so much riding on the outcome of his anti-Saddam campaign, the President clearly has his work cut out for him. Yet even backers of the Bush policy say that up to now, he has struggled to make his case. The President has been "diverted by the economic situation and his tax-cut proposal," says hawkish Senator John McCain (R-Ariz.). "He has to refocus."

Buoyed by his skillful Nov. 8 drive to win U.N. approval for Iraqi disarmament, Bush thought that international support would quiet his domestic critics. Now, he finds himself bogged down in a Security Council dominated by war foes. That's why Bush reserves the right to order an invasion at a time of his own choosing. In the best case, the U.S. would lead a "coalition of the willing" that storms Iraq within the next few months. In the worst, it would largely

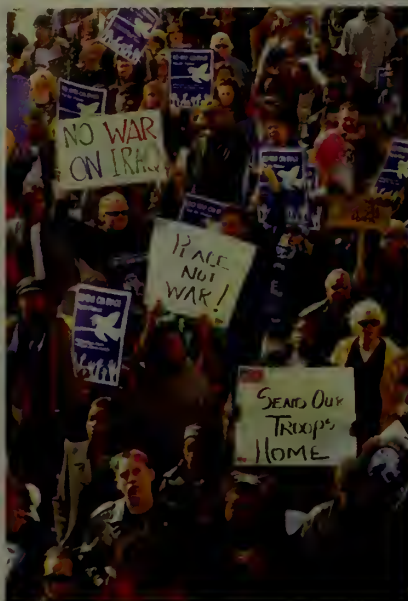
go it alone, using the veneer of NATO cooperation and access to Mideast military bases as proof of Allied assent.

Some of Iraq's neighbors are convinced that Bush is dead serious. Turkey, Saudi Arabia, and other nations have launched

urgent initiatives to persuade Saddam to go into exile or, failing that, incite a coup against him. As war clouds gather, Saudi Foreign Minister Saud al-Faisal and Egyptian President Hosni Mubarak are shuttling to foreign capitals to head off a U.S. attack—or at least show their people that they're trying to avoid Western intervention.

"The regime is not good for the Iraqi people or for the area," a

ANTIWAR IN ATLANTA: *Hundreds of thousands have protested in cities across the country*



SUPPORT FOR WAR IS HARDLY GUNG-HO

FAVOR OR OPPOSE MILITARY FORCE IF:

Favor	Oppose	Don't Know
IRAQ IS HIDING WEAPONS		
76%	17%	7%
IRAQ IS HIDING ABILITY TO MAKE WEAPONS		
46%	47%	7%
IRAQ CAN'T PROVE IT'S NOT HIDING WEAPONS		
29%	63%	8%
INSPECTORS CAN'T ASSURE IRAQ HAS NO WEAPONS		
28%	62%	10%

Data: Poll of 1,218 adults taken from Jan. 8-12, 2003, by Pew Research Center for the People & the Press

Saudi royal family adviser says. "It's a question of convincing others around [Saddam] to take action. You hope someone in Iraq is listening."

With more than 150,000 U.S. troops and four carrier battle groups converging on the Persian Gulf, and hot weather fast approaching, Bush has little time left for persuasion. Yet foreign policy experts say that in the days that remain, he needs to marshal his arguments.

For starters, many diplomats believe the White House must shed its reluctance to share intelligence with U.N. search teams. "There is a constant strug-

gle within the Administration over much you reveal," says former State Dept. official Jon B. Alterman. "You protect your sources and make a weaker case or blow your source."

GOP strategists are convinced that the next few weeks, the spooks will use this argument, and Bush will begin leasing spy data about Iraq's weapons program. Using this material, the President will try to build a damning case against Saddam.

Next, Bush must explain why staying longer is a fool's game. The argument: It strengthens Saddam's hand since the longer U.N. inspections are on, the more Bush's war consensus erodes.

Another difficult chore for Bush is lining his vision for a post-Saddam Iraq. In theory, transitional military rule is supposed to give way to a coalition government of democratically inclined leaders, making a liberated Iraq a beacon of democracy for other Arab regimes.

But skeptics abound. For Colorado Democratic Senator Tim Wirth, Hart says Bush must answer big questions: How long would the U.S. maintain a military presence in Iraq, and how much would it cost? After the Afghan campaign, for instance, noncombatant casualties pledged \$5.2 billion for reconstruction, but Kabul complains it's not enough. Today, opposition to Iraqi intervention is so strong that assembling an aid network could prove even more daunting. The big plus: Iraq's vast oil reserves, which could help pay for postwar rebuilding.

Because he must speak to so many audiences in so many different locales, the chore Bush faces on Jan. 28 is immense. Thus far, the President has managed to persuade the international community of little save his clear conviction that civilized nations must rid themselves of

scourge of Saddam. But is the Bush Doctrine a coherent step toward peace or the final act of a family vendetta? Will the intervention make the world safer from terrorism, or incite thousands of new fanatics to enlist in a jihad? date, Bush has not managed to answer these questions to rest. And, as he is to say as the hour of decision nears, "time is running out."

By Paula Dwyer, Lee Wale, Richard S. Dunham, and Stan Crook in Washington, with Michael Arndt in Chicago, Stanley Reed in London, and bureau reports

COMMENTARY

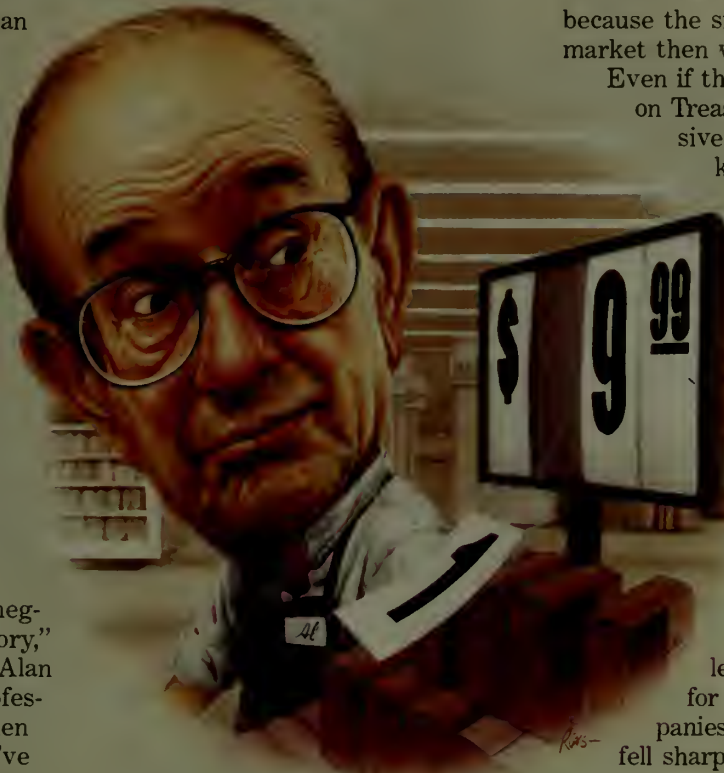
By Rich Miller

IF DEFLATION SETS IN, THE FED HAS A PROBLEM

Federal Reserve Chairman Alan Greenspan and his central bank colleagues will tell you at the danger of deflation is a big deal. In the remote event that the U.S. dives into deflationary spiral, policymakers say, the Fed has all the tools required to turn things around. "Sufficient injections of money will ultimately ways reverse a deflation," Fed Governor Ben S. Bernanke asserted confidently last fall. Let's hope he's right, because deflation is not out of the question. Excluding volatile food and energy costs, consumer prices rose 1.9% last year, the smallest increase since 1965. It wouldn't take much to turn that number negative. "We're in dangerous territory," says former Fed Vice-Chairman Alan B. Blinder, now an economics professor at Princeton University. "When you've got inflation as low as we've got it, one good-sized recession is enough to bring it down to zero, or even maybe below zero."

A downward price spiral may not be quite as easy to whip as Fed policymakers let on. They acknowledge that cutting short-term interest rates won't work in a deflationary downturn because the rates can't drop below zero. But they argue that the central bank could take unconventional measures—such as flooding the banking system with money, buying up Treasury bonds, or selling off the dollar—to revive the economy and break the back of deflation.

All those tools, however, are untested as counter-deflationary strategies. "We don't know that any of them will work," says Janet L. Yellen, a former Fed governor now teaching economics at the University of California at Berkeley. Indeed, staffers at the Fed's own board concluded two years ago that the efficacy of such measures was "uncertain."



Let's say the Fed starts pumping a lot more money into the financial system by significantly stepping up its purchases of Treasury bills. If banks were already awash with cash and short-term interest rates were at zero, that added Fed largesse wouldn't make much difference to the economy.

That's why Greenspan and Bernanke have suggested that the Fed could extend its market operations to buying up longer-dated Treasury securities. That could help the economy by bringing down long-term rates. In defending such a strategy,

policymakers point to the Fed's success in holding down long-term rates to help finance the U.S. military machine during World War II. But when the Fed tried again to manipulate long-term rates in 1961 in a maneuver called Operation Twist, it had little success. That may have been because the size of its dealings in the market then weren't that big.

Even if the Fed did lower yields on Treasury bonds via a massive incursion into the market, there's no guarantee that homeowners and corporate CFOs would be rewarded with lower borrowing costs. In normal times, mortgage rates and corporate bond yields do tend to rise and fall in tandem with Treasuries. But deflation is anything but normal. With prices of assets as well as goods and services falling, fears of default might prompt lenders to keep rates up for homeowners and companies, even if Treasury yields fell sharply.

Instead of trying to help the economy through lower long-term interest rates, the Fed could attempt to fight deflation by buying up foreign currencies. The move would be designed to drive down the dollar in order to make foreign imports more costly in the U.S. and American products more competitive abroad. But the record of central bank intervention in the currency market is spotty at best. Then there's the risk of setting off a trade war and tit-for-tat currency devaluations.

So why are Fed policymakers talking so bravely about their ability to reverse falling prices? It's a confidence game. If consumers and companies believe the Fed is powerless to combat deflation, the battle is lost before it's begun. Better that they give the Fed the benefit of the doubt. Defeating deflation—should the scourge materialize—will be hard enough as it is.

Miller covers the Fed from Washington.

Imperfect Battle Plans

FLOOD THE ECONOMY WITH MONEY

► The Fed could buy Treasury bills, pumping billions into the banking system. But the effect on the economy would be limited once the Fed cut short-term interest rates to zero.

REDUCE LONG-TERM RATES

► The Fed might opt to buy U.S. government bonds. But such purchases would probably need to be massive.

WEAKEN THE DOLLAR

► The Fed could achieve this by buying foreign currencies, reducing demand for imports. But that could spark a trade war and competitive currency devaluations.

COMMENTARY

By Michael J. Mandel

DEFICITS? CLASS WARFARE? NO, IT'S ABOUT GROWTH

Forget the fight between Republicans and Democrats. When it comes to economic policy, what's going on now is a struggle between "growth optimists" on one side and "economic declinists" on the other.

Optimists, whether conservative or liberal, believe that the long-term growth potential of the U.S. remains

bright. Sure, there's dispute about the best way to encourage growth. Conservatives favor lower taxes on capital; liberals support more funding for research and development and education. And technologists, regardless of their political stripe, want to encourage the innovative companies of Silicon Valley. But the optimists share a common goal: sustaining, or even beating, the strong economic

performance of the 1990s.

By contrast, declinists—and there are plenty of them among both conservatives and lib-

slow-growing, they worry more about how to divvy up the economic pie than how to make it bigger.

One of the most influential declinists is Paul Krugman, a Princeton economist and a high-profile *New York Times* columnist. Krugman has long been pessimistic about the U.S. economy's future, as shown by the title of his 1990 book, *The Age of Diminished Expectations*. In the mid-1990s, he vehemently objected to the New Economy idea that technology could boost the rate of productivity growth, writing that "there is no good reason to believe that the speed limit on the economy has been raised." At the same time, he argued

difference between the optimistic and declinist perspectives. In his Jan. 2, 2003, column, Krugman takes on a *BusinessWeek* Cover Story titled "Class Warfare?" analyzing the growth impact of Bush's plan to eliminate the personal tax on dividends. Krugman said *BusinessWeek* didn't pay enough attention to "who gets what"—that is income inequality.

But Krugman's focus on inequality, in part, reflects his skepticism about the ability to stimulate long-term growth. In the short run, Krugman argues for Keynesian measures, such as providing more aid for hard-pressed state governments. But in the long run, Krugman, like other declinists, seems fixated on controlling the budget deficit. Unfortunately, economic theory suggests that even eliminating the budget deficit will have a relatively small impact on the long-run growth rate.

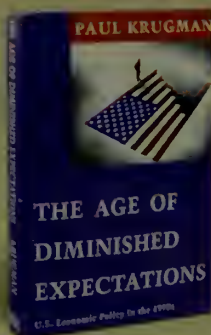
More is needed. As *BusinessWeek* pointed out, the best thing for poor Americans is fast growth and low unemployment, even if it brings more inequality. That's the lesson of the 1990s, when the rich prospered but the poverty rate fell as well, going from 15% in 1993 to less than 12% in 2001. Over the same stretch, real wages for production and non-supervisory workers rose by 10%—reversing a 20-year downward trend.

An economy should be judged, at least partly, by how well it treats the poor. By that measure, the 1990s were a success. No one can guarantee the Bush tax proposal is the best way to repeat this performance. But at least its focus on growth points in the right long-term direction. That's something skeptics like Krugman ignore.

Mandel is BusinessWeek's Chief Economist.



KRUGMAN'S WORRIES CENTER ON INEQUALITY



Krugman was wrong about productivity and wrong when he said falling unemployment would ignite inflation

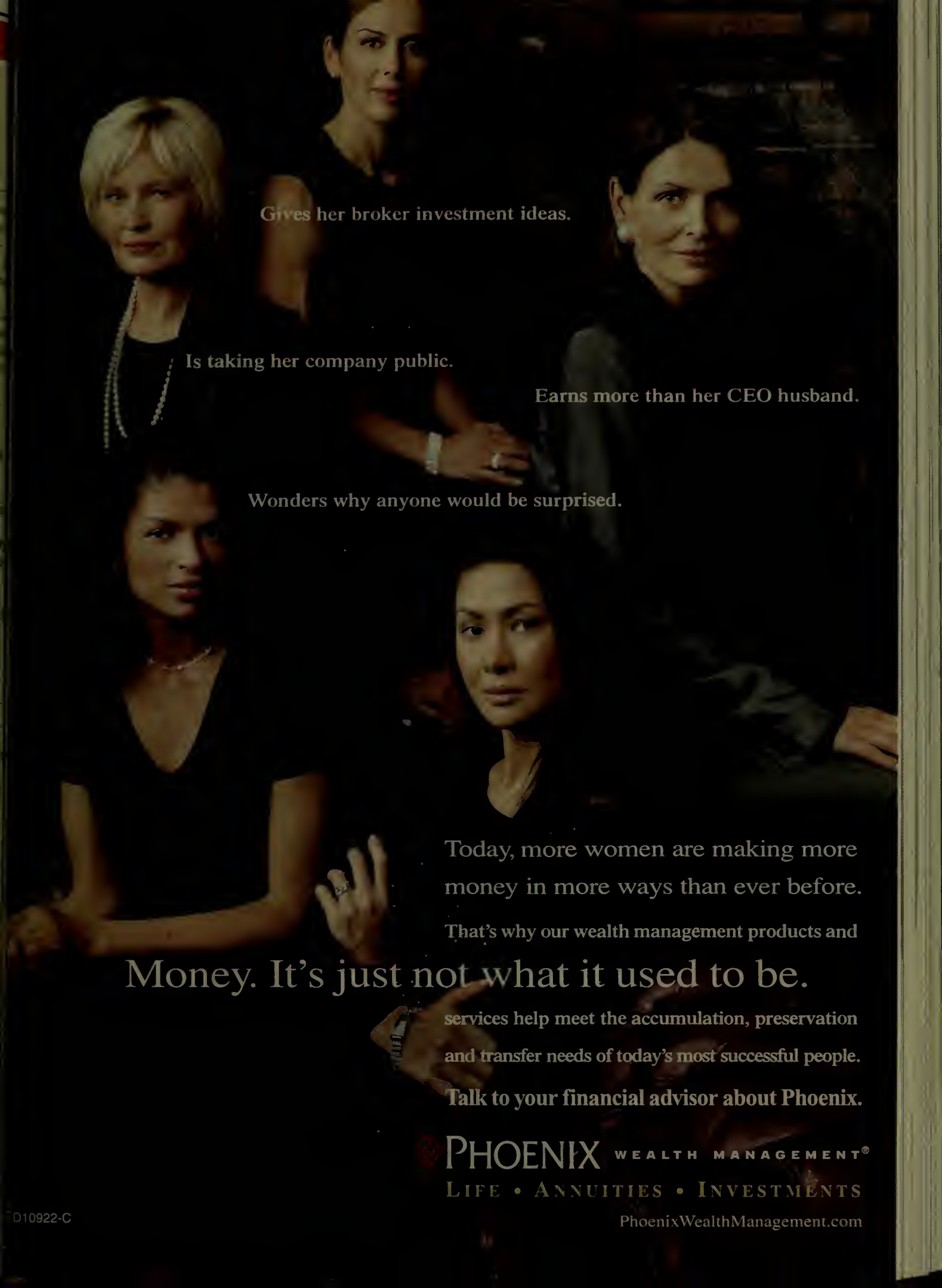
KRUGMAN'S 1990 BOOK SHOWED HIS PESSIMISTIC STREAK

erals—think the 1990s boom was at best an anomaly, and at worst a bubble that did more harm than good. Such declinists preach the gospel of sacrifice and belt-tightening. They would rather hold down the federal budget deficit, instead of encouraging private investment through tax cuts or providing more funding for R&D and education. And because declinists think of the economy as relatively

that unemployment could not fall below 5.5% without triggering inflation.

On both counts, Krugman was wrong. Annual productivity growth has accelerated to an average 2.6% since 1995, up a full percentage point from the preceding two decades. And unemployment dropped below 4% while inflation stayed quiescent.

But it's one of Krugman's latest pieces that shows most clearly the



Gives her broker investment ideas.

Is taking her company public.

Earns more than her CEO husband.

Wonders why anyone would be surprised.

Today, more women are making more money in more ways than ever before.

That's why our wealth management products and

Money. It's just not what it used to be.

services help meet the accumulation, preservation and transfer needs of today's most successful people.

Talk to your financial advisor about Phoenix.

 **PHOENIX** WEALTH MANAGEMENT®

LIFE • ANNUITIES • INVESTMENTS

PhoenixWealthManagement.com

GOVERNANCE

REFORM: BUSINESS GETS RELIGION

But do the changes being implemented go far enough—and will the good-governance fervor last?

Raytheon Co. has embraced corporate governance with gusto. In a spate of recent speeches, Chairman Daniel P. Burnham has admonished fellow executives to make their boards of directors more accountable to shareholders. And on Jan. 14, the defense-electronics giant jumped on the latest governance fad by naming a lead director. With the power to call board meetings and rally the outside directors, former Senator Warren Rudman (R-N.H.), a Raytheon board member since 1993, will become a new power center independent of management.

Raytheon's conversion is no accident: The Securities & Exchange Commission sanctioned the Lexington (Mass.) company for violating disclosure rules last year and is now probing its accounting. Raytheon is still smarting from the embarrassment of having had L. Dennis Kozlowski, Tyco International Ltd.'s disgraced former CEO, head its audit committee. Kozlowski resigned the post last June, just before he was indicted on charges of tax evasion.

But it doesn't take a scandal to get a company scrambling aboard the reform bandwagon. Throughout Corporate America, companies are adding more outsiders to boards, beefing up crucial committees, and recruiting financial experts to bolster their audit panels (table). CEOs, meanwhile, are preening over their newfound credibility. Disney Chairman and CEO Michael D. Eisner,

MOPPING UP IN THE BOARDROOM

Corporate America is reshaping its governance, scrambling to stay ahead of new proposals from the SEC, NYSE, and shareholder advocates

INDEPENDENT BOARD LEADERS

WHY CHANGE? Critics say that combining the jobs of CEO and board chair gives executive too much power. Companies at splitting the jobs, but the idea of a "presiding director" to lead the board outsiders is quickly gaining support.

EXAMPLES Disney, GE, H&R Block, Interpublic Group, Tyco



has long packed his board with ds, gushed that his seven-point overhaul evinces Disney's "commitment to maintaining a leadership role in corporate governance."

The reform wave is worth watching, because the SEC has just handed corporate boards a whole lot more responsibility. On Jan. 22, the Commission voted to charge board audit committees with screening tax-shelter schemes, rather than laying down an absolute ban on accountants selling such shelters to audit clients. The controversial move reflected a conviction that strong, independent boards can prevent wrongdoing on their own—and that new regulations telling companies exactly how to behave are often unnecessary.

To a large extent, the agency is betting that the type of governance reforms sweeping through America's boardrooms can prevent a repeat of the recent white-collar crime wave. Says Commissioner Cynthia A. Glassman: "Over the last year, some boards weren't paying the attention they should have. So now all

boards have to make sure they step up to the plate."

On Jan. 23, the SEC was expected to give boards even more power by making them the final arbiters of complaints from attorneys who suspect fraud within a company. The agency had proposed a rule that would require lawyers with evidence of wrongdoing to quit and alert the SEC if management and the board failed to act. But after fierce opposition from law firms, the agency decided to put off voting on the rule until it can evaluate the potential impact on attorney-client privilege.

While shareholder activists roundly

criticized the latest SEC rulings for placing too much trust in directors, many governance experts believe that the drive to recruit and empower outsiders as shareholder advocates will nonetheless have lasting benefits. "Independent majorities of directors combined with independent nominating committees will shift the balance" of control, says Charles M. Elson, who heads the University of Delaware's Center for Corporate Governance.

Corporate America's rush to reform is keeping it just one step ahead of regulators. The New York Stock Exchange and NASDAQ have proposed new listing standards that will require stricter definitions of independence for outside directors, more muscular nominating and compensation committees, and adoption of governance codes.

Many of the boards that will carry out those mandates are likely to be im-

myriad of factors—the caliber of new directors, whether they remain vigilant, how much information management will cede—will determine whether new boards live up to investors' hopes.

The next major test of Corporate America's enthusiasm for reform will be the upcoming proxy season. It's already shaping up as one of the most explosive in years. Labor groups, pension funds, and shareholder activists hope to capitalize on business' scandal-weakened state to press for new limits on executive compensation and new clout for shareholders.

On most of these proposals, management isn't budging. GE, for example, is arguing before the SEC that the company can block a proposed shareholder resolution calling for separating the jobs of chairman and CEO. The company maintains that it has already met the intent of that plan by appointing a presiding director.

On compensation, companies aren't giving much ground, either. While some 176 companies now plan to expense stock options—subtracting the options' value from quarterly earnings—that idea is still anathema in Silicon Valley. "I have accounting heartburn," grouses Scott G. McNealy, CEO and chairman of Sun

Microsystems, which opposes expensing. Dozens more companies are expected to fight resolutions that would give executives stock options only if the companies' shares outperform those of competitors.

The huge number of resolutions will make this year's proxy statements look like phone books. But shareholders also will face a raft of new board candidates. That should be a breath of fresh air. And the shameful images of 2002's scandal parade should put some backbone into supine directors. But the battle for reform will be waged behind closed doors, one boardroom at a time. Corporate America still has a long way to go to justify the faith that Congress and regulators are placing in its hands.

By Amy Borrus and Mike McNamee in Washington, with William Symonds in Boston, Nanette Byrnes in New York, Andrew Park in Dallas, and bureau reports

The SEC has just handed boards more responsibility to police accountants. That has shareholder activists up in arms

provements over the rubber-stampers of the past. BMC Software Inc. in Houston has added two new outside directors and ordered a new board committee to assess how well the company is abiding by 40 key governance principles. At General Electric Co., two longtime directors recently stepped down to reduce the clout of insiders. Motorola Corp. has appointed a top governance executive and added two outside directors with financial skills. And CFOs and retired accountants are fielding headhunter calls as companies from AT&T to Sun Microsystems Inc. seek green-eye-shade expertise for audit committees.

Despite this progress, other governance gurus fear that companies are checking the boxes rather than taking changes to heart. "There's no structure that can't be subverted," warns Nell Minow, editor of the Corporate Library LLC, a governance-research service. A

FINANCIAL EXPERTISE

WHY CHANGE? New SEC rule requires companies to disclose whether they have a financial expert on their boards' audit committees. General business experience doesn't count.

EXAMPLES AT&T, Kimberly Clark, Sun Microsystems, Alberto-Culver, W.R. Grace, Beazer Homes USA

GOING OUTSIDE FOR DIRECTORS

WHY CHANGE? NYSE will require a majority of outsiders on boards, with strict standards for independence. Recruiting is tougher because companies are reducing the number of outside directors on which their CEOs can serve.

EXAMPLES Sun Microsystems, BMC Software, Interpublic Group

TURNING GOVERNANCE INTO A JOB

WHY CHANGE? To keep a tight focus on corporate control, companies are hiring chief governance officers, instituting governance codes, or overhauling board nominating committees. Boards are adding formal evaluations for directors.

EXAMPLES Computer Associates, Motorola, Disney, Charles Schwab

SMALL BUSINESS

THE MAIN SQUEEZE IN THE CREDIT CRUNCH

As bankers grow leery, small manufacturers bear the brunt

Even as President George W. Bush tries to jump-start the economy with tax cuts and the Federal Reserve keeps interest rates low, smaller companies across the country are complaining about a powerful drag on the nation's economic engine: Many banks are tightening lending standards, making it harder for small businesses to get capital for the kind of expansion and hiring that would hasten a recovery.

The paradox isn't lost on James A. Knight, chief executive of fiberboard maker Knight-Celotex LLC, a 250-person company in Northfield, Ill. "Although interest rates are low, banks have to be willing to lend money," he says. When he bought a floor-tile manufacturer out of bankruptcy in November, his request for a "low seven-figure" loan required far more collateral and drew far more scrutiny from his bank than he had experienced two years before. "This is what's holding down economic growth," he grouches.

Knight has plenty of company. The net percentage of banks tightening loan standards to small companies rose to nearly 20% in October, the latest month available, from about 6% in the Fed's August survey of senior loan officers. Indeed, from Massachusetts to California, small businesses are having to jump through more hoops than they have in years to line up financing. A recent Kent (Wash.) Chamber of Commerce survey of about 200 small companies, for instance, found that a third reported more trouble borrowing money this year than last. "We're talking about companies with good technology, great market potential, but whose growth is being held back by banks tightening credit," says the Chamber of Commerce's executive director, Barbara Ivanov.

Of course, businesses of all sizes have been facing higher bank-lending stan-

dards and stiffer loan terms, because of a weak economy and the banks' growing number of problem loans. But big companies can more easily tap other sources of capital, including the bond and commercial-paper markets. And mom-and-pop-size businesses, boasting closer relations to community banks, report few

credit problems. The trouble seems to lie with companies employing 40 or more workers and boasting sales from \$10 million to as much as \$250 million. "What you're really seeing is a credit squeeze on less creditworthy borrowers, and small businesses generally fall into that category," says David A. Wyss,

chief economist at Standard & Poor's. Another reason that they may feel the pinch more is that "they're somewhat less transparent than the big firms," Wyss adds, because many are private.

Some bankers argue that the real problem is not a credit squeeze at all but weak loan demand in a slow economy. That's the main reason, they say, loan volumes have fallen 6% since the end of 2001. Another factor: the looming war with Iraq. "Our clients are still in a very conservative mode, especially when it comes to equipment spending," says Carl R. Tannenbaum, chief economist for LaSalle Bank Corp. in Chicago, which caters to small and midsize firms. Tannenbaum says that the bank's lending standards haven't changed. That's true, too, at Comerica Bank-Texas, says C.D. Heinen, senior vice-president of small-business banking.

But fewer companies are meeting the leverage and liquidity standards, given the tough economy. "It's just harder to find those that qualify [for loans], and the smaller the business,

the tougher it is," says Hei-

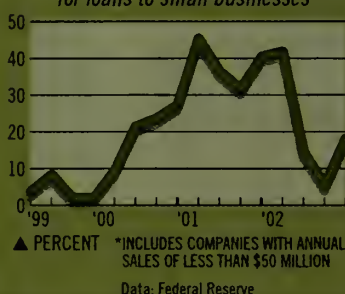
Even so, this squeeze isn't as painful to small business as the credit crunch a decade ago, when recession and banking industry's own financial heaval prompted banks to shut out strong companies. That's not happening now, bankers and economists agree. "There is money available at reasonable to good terms for good companies that can demonstrate they have the ability to repay," says Paul J. Bonitati, chief community banking executive at Hibernia National Bank in New Orleans.

That is little consolation to the increasing number of companies that no longer qualify as "good companies." Especially hard-hit are smaller manufacturers, a sector that already has been clobbered by foreign competition. The credit clampdown "remains a serious impediment to the recovery of manufacturing," which has lost 2 million jobs in the past two years, says Hank Coffey, spokesman for the National Association of Manufacturers.

Few have felt the pain more than Walter T. Towner, president of metal fabricator Thorsen Inc. The Andover (Mass.)-based business filed for Chapter 11

SKITTISH LENDERS

Domestic banks tightening standards for loans to small businesses*



HARD-HIT
CEO Knight
says he
faces rising
collateral
requirements

Dec. 23, after Thorsen's longtime demanded that Towner put up house as additional collateral for a With the company's sales declining the value of the machinery backing debt also had plunged. Towner says 10-year-old company was cash-flow negative and current on all its obligations. Now, the executive is trying to get a new bank, but so far a half-dozen have said they want no part of manufacturing.

Towner could still get lucky. But for countless other small-business executives across the country, the odds aren't likely to loosen up soon. What has to occur first is an improvement in the overall confidence in the economy," says banker Robert Tattibus. "I would say we're more of a follower than the leader in that." The stark truth is that companies of all sizes will find money a lot easier to come by as soon as they no longer need it badly. Many of the bigger companies have no trouble riding out the storm. But for countless small businesses around the country, time and money are running out.

by Wendy Zellner in Dallas, with
by Therese Palmer in Chicago,
by Liam C. Symonds in Boston, Stanley
by James in Seattle, and bureau reports



THE INTERNET

THE START OF A DOT-COMBACK?

VCs are opening their wallets to sites that show results

You'd have thought venture capitalists would have had enough of online grocers. Who can forget the spectacular bust of San Francisco's Web-Van Group Inc. in 2001? Yet New York's FreshDirect Inc., launched in September, has had no trouble lining up backers. CEO Joe Fedele won them over by pushing low food prices rather than convenience. FreshDirect has already raised \$100 million and is looking for more.

FreshDirect isn't the only fledgling dot-com attracting investors. Over the past six months, VC firms have started wading back into a sector many had given up as a lost cause. They're moving cautiously, though. According to industry tracker Venture Economics, VCs invested only \$850 million in some 110 new and existing companies last year. During the boom's peak in 2000, VCs pumped \$13.1 billion into 750 companies. "Maybe there weren't as many great dot-coms as people originally thought," says Jay C. Hoag, founder of Technology Crossover Ventures, a Palo Alto (Calif.) VC firm that last month invested \$15.3 million in online movie-ticket service Fandango Inc. "But that doesn't mean all of them are bad ideas."

What's drawing the VCs back into the fray? In large part, they're rewarding dot-coms' newfound focus on the bottom line. Most VCs say they are looking for

strong transaction-based dot-coms that can persuade hordes of people to pay regularly for a service or product, such as tickets or online games. "Investors today are obviously concerned

FRESH IDEA: Pushing low prices rather than just convenience, FreshDirect raised \$100 million

about reality vs. fantasy," says Fandango CEO Arthur Levitt III. "They want to see a proven track record and strong fundamentals."

That's what Hoag and his partners saw in Levitt's three-year-old company. Although it had taken a while for Fandango's business to catch on, it began to mushroom in the past year. By the end of 2002, Fandango was attracting 2 million Web surfers a month, according to comScore Media Metrix, driving revenues up threefold from 2001.

In part, it was the dearth of VC funds that forced dot-coms to get real. Take RedEnvelope Inc., a company that specializes in last-minute gifts. In 1999, the year it was founded, RedEnvelope spent twice its revenues on marketing. This year, the company says marketing costs will amount to just 20% of revenues, or \$72 million, up from \$56 million last year. That's had two results: RedEnvelope expects to make money this year, and in October, it attracted \$13.8 million in funding, much of it from the Boston VC firm Weston Presidio.

For the time being, caution will prevail on the dot-com front. VCs will focus on seasoned private players or startups with models that mimic eBay Inc. or trade in information. Still, more aggressive VCs, including Sutter Hill Ventures and Brand Equity Ventures, say they will risk money in such new areas as digital photography services. For dot-coms, the message is clear: It's time to grow up.

By Heather Green
in New York and
Arlene Weintraub in
Los Angeles

CLICK, CLICK, KA-CHING



Data: Forrester Research

COMMENTARY

By Peter Burrows

HOW TO MILK AN APPLE

Going by the numbers, Apple Computer Inc. appears headed for trouble again. While CEO Steven P. Jobs engineered a remarkable comeback after retaking the helm in 1997, one-time expenses, such as plant closures, have pushed the company into the red for two quarters running. For the one ended Dec. 28, Apple reported a net loss of \$8 million on revenues of \$1.47 billion, vs. a profit of \$38 million a year ago. Worse, Apple's share of the U.S. PC market is hovering around 3.5%, according to IDC analyst David Daoud. That's down from 13.4% a decade ago and 4.2% in the year after Jobs returned.

But fear not, Mac faithful: Apple may never again pose a threat to Microsoft Corp. and its PC allies, but its niche is safe. In the \$160 billion PC market, a 3% market share should be enough to fund Apple's research-and-development push. So long as Macolytes keep paying Apple's high prices, its 28% gross margins should far exceed PC rivals—especially if it keeps expanding its portfolio with non-PC products such as the iPod MP3 music player. “The battle for market share ended 10 years ago,” says UBS Securities analyst Don Young. “But there's a place in the PC world for an innovation leader.”

That's good news for consumers. Apple continues to be the trend-setter for the PC industry, which has been far more focused on cost-cutting than on innovation. In recent years, Apple has drawn crowds of copycats with its AirPort wireless networking gear and its flat-screen iMacs. Now, Jobs is sparing no expense on the R&D front. Even as revenues fell from \$8 billion in fiscal 2000 to \$5.7 billion in 2002, Apple's R&D outlay surged from \$380 million to \$446 million.

The new products keep coming. At



MACWORLD: Steve Jobs introduces Apple's 17-inch laptop

the Macworld convention in early January, Jobs unveiled two snazzy new notebooks. More important, the company introduced iLife, its suite of video, music, and photography software that allows anyone to give home movies professional gloss—inventions that almost surely will end up in Wintel PCs.

Nothing will come easy for Apple, however. It is rapidly losing its grip on the education market, a former stronghold. As school districts opt for cheaper Wintel PCs, Apple's share in education has dropped from 21.5% in 1998 to 12.7% in the third quarter of 2002, says IDC—and few see a turnaround. Fourth-quarter sales of Power Macs to creative types fell by 27% from the year before, in part because of a delay in the introduction of critical desktop publishing soft-

ware from Quark Inc. and by a rising gap between Intel Corp. chips and the PowerPC chips inside Macs.

Jobs has compensated by selling more computers to consumers. According to IDC, Apple's share of the U.S. consumer market jumped from 2.2% in 2001 to 3.9% in the first three quarters of 2002. In part, that

because of the rollout of 500 Apple retail stores and the six-month-old “Switcher” campaign aimed at persuading PC users to buy Macs. Roughly half of the people who bought Macs in Apple stores last quarter had never owned one before. That's roughly 23,000 new customers. However, no one knows how many Mac owners switched to PCs.

Over the next year, Apple may get a boost in the professional market. When Quark releases its software, many design shops will need to upgrade to Macs that include the year-old OS X software. The same goes for small-business owners who want the first Mac upgrade of Intuit Inc.'s QuickBooks accounting software since '95.

And advance orders for Apple's two new laptops are brisk, say retailers.

Finally, Apple is moving beyond the Mac. It begins selling the iLife software suite, for \$49, on Jan. 25. And the iPod has been a huge hit for two years now, with no slippage (page 111). Despite a hefty \$299 to \$499 price tag, Apple sold 216,000 of them in the last quarter of 2002. It's by far the leader in this growing category.

Jobs hasn't convinced everyone on

Wall Street that the spending is wise. Besides R&D, he's pouring big bucks into his retail outlets. This year, Apple will spend \$77 million, even though the stores aren't profitable. But those critics miss the point. Jobs needs to keep dreaming big when it comes to innovation. That's how Apple can turn 3.5% of the market into a winning formula.

Losing Luster

Apple's U.S. market share

1992 13.2%

2002 3.5 Est.

Data IDC

Burrows covers Apple from San Mateo, Calif.

EDITED BY MONICA ROMAN

MORE McLAWSUITS?

MCDONALD'S CLAIMED VICTORY when a federal judge in New York on Jan. 22 dismissed a lawsuit that claimed the fast-food giant has some responsibility for making children obese. McDonald's declared: "Common sense has prevailed." Not so fast. A closer look at the 65-page opinion from Judge Robert Sweet hints that the case was thrown out more for lack of proper argument from the plaintiffs' lawyers than for its frivolity, as McDonald's claims. Judge Sweet says it "presents unique and challenging issues," adding that the complaint can be amended. Sweet even lays out some possible arguments that plaintiffs could use, calling the Chicken McNuggets a "Mc-Frankenstein" creation. John Banzhaf, a George Washington University law professor and anti-tobacco crusader, says: "This opens the door

for more lawsuits." Watch out, McDonald's.

IT'S STILL RICH MAN, POOR MAN

THE POOR GOT A WEE BIT richer, and the rich got a lot richer. That's according to the Jan. 22 release of the Federal Reserve's triennial Survey of Consumer Finances, covering developments from 1998 to 2001. Families with incomes in the lowest 20% of the distribution did best, with their median wealth more than doubling. But even that gain left the median family in the group with net worth of only \$1,100. By contrast, the median family in the top tenth of wealth enjoyed a \$326,000 increase in net worth, to \$1.3 million.

VERIZON MUST FACE THE MUSIC

FIGHTING OFF INTERNET PIRACY that last year slashed its sales by 9%, the music industry won a key battle when a federal judge ordered telco Verizon Communications to turn over the name of a Net subscriber who had allegedly made songs widely available online. U.S. District Judge John Bates ruled that Verizon was required to turn over the name to the Recording Industry Association of America, the industry group that filed suit. Verizon argued that the hundreds of songs allegedly pirated by the subscriber resided not on its server but on the subscriber's computer. It said it will appeal the ruling.

TRIUMVIRATE IN THE SKY

AMERICAN AIRLINES MAY BE the world's biggest carrier, but three rivals plan to launch a marketing pact this summer that will effectively

HEADLINER: DANIEL CARP

KODAK: NOT A PRETTY PICTURE

After more than 30 years at Eastman Kodak, you might think Daniel Carp, the company's chairman and CEO, had seen it all. Then came the fourth quarter of 2002, when film sales dropped 5% from the already weak year-ago period and revenue for 2002 slid 3%, to \$12.8 billion. The outlook for 2003 isn't much better. "The film industry is under pressure unlike ever before," Carp told investors on Jan. 22. So is Kodak: Film sales continue to suffer as more consumers buy digital cameras. Although Kodak

scored big last year with its EasyShare digital camera, competitors have copied it and prices have fallen.



Carp has tried to control what he can: costs. Kodak said it would cut up to 2,200 jobs, or 10% of its workforce.

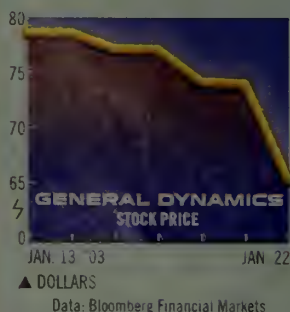
It's moving manufacturing to China and hopes to boost sales there as well. But not even Carp expects the picture to get much brighter this year. Kodak says net income will likely be flat or down from the \$770 million it earned in 2002. The bad news drove shares down 11%.

Faith Keen

CLOSING BELL

BAILING OUT

Investors drove down General Dynamics shares more than 12.4%, to \$64.85, on Jan. 22. While the company's defense businesses remained strong in the fourth quarter, aerospace earnings plunged. CEO Nicholas Chabraja said GD will earn \$5.15 a share in 2003, vs. the \$5.49 analysts had been expecting.



create a larger airline. Northwest and Continental, which have been linked since 1998, got Justice Dept. clearance Jan. 17 to form a code-sharing alliance with Delta that will allow travelers to book flights on any of the three airlines and earn frequent flier points on the carrier of their choice. United and US Airways won approval of a similar partnership last fall. The trio still faces a few hurdles. For instance, the Transportation Dept. wants the three to give up underutilized gates at hub airports.

ONE LESS GAP AT THE GAP

PAUL PRESSLER HAS STARTED the housecleaning at Gap. As part of his turnaround strategy, CEO Pressler on Jan. 18 tapped Disney executive Byron Pollitt to be Gap's chief financial officer. Among the first tasks for Pollitt, who

held the top finance job at Pressler at Disney's theme parks and resorts unit, will be to cut costs by closing some of Gap's 4,200 stores. Pollitt will also have to figure out how Gap can improve bruised bond ratings, which have suffered for more than a year as the chain struggles with rising debt amid eroding profits and sales at its Old Navy, and Banana Republic public stores. Pressler is looking to hire heads for the chain's international division and the Gap brand's marketing team.

ET CETERA...

- News Corp. has put the Angeles Dodgers up for sale.
- Motorola posted a \$174 million net profit in the fourth quarter.
- Mark McCormack, founder of sports marketer International Management Group, suffered a serious heart attack.

Something not perfect?

Just
Say
so.

The Sheraton Service Promise

If you're not entirely satisfied, we'll take care of it.
And we'll make it up to you with an instant discount,
points for our rewards program, even money back.
And that's a promise.

Call 800-325-3535 or your travel planner.
Visit sheraton.com. Best rates, guaranteed.



Sheraton®

See for yourselfsm

MEMBER OF  STARWOOD PRESTIGE QUEST

Please see program restrictions at sheraton.com. Compensation at the discretion of hotel management. See hotel program for complete details. Best rates & availability subject to change. © 2008 Sheraton Hotels & Resorts Worldwide, Inc.

The

“STOP
LIVING
DANGEROUSLY”

storage software company.

 86% of the FORTUNE 500® rely on VERITAS Software for data backup and recovery.

veritas.com


VERITAS™

Copyright © 2003 VERITAS Software Corporation. All rights reserved. VERITAS, the VERITAS Logo and all other VERITAS product names and slogans are trademarks or registered trademarks of VERITAS Software Corporation. VERITAS and the VERITAS Logo are U.S. Pat. & Tm. Off. All other trademarks are the property of their respective owners.

ED BY JOHN CAREY

BUSH'S MEDICARE REFORM: BIG PILL TO SWALLOW

George W. Bush's State of the Union address on Jan. 28 won't just be about Iraq and terrorism. The President will also use his high-profile appearance to argue for a domestic priority: broad reform of Medicare, the health program for seniors. And as he did with his economic stimulus package, Bush will be thinking big. "You'll see a very aggressive President," promises Thomas A. Scully, administrator of the Centers for Medicare & Medicaid Services, the Health & Human Services unit that runs the program.

Bush will go beyond calling for new federal subsidies to help seniors buy drugs. He'll argue that adding the benefit without reining in skyrocketing costs is a prescription for failure. And he will urge Congress to restructure the program to move from fee-for-service care to a system based on private insurance.

Under the White House scheme, private insurance companies would sell Medicare coverage, including a drug benefit. They would compete with each other, and with the traditional plan. Some might offer lower prices, others more benefits. To encourage seniors to participate, the government would subsidize a fixed portion of their premium costs.

Such a change would shift more of the burden of future cost hikes to seniors and away from other taxpayers. "We'd be grossly irresponsible if we just added new bells and whistles," says one White House ally, Senate Budget Committee Chairman Don Nickles (R-Okla.). "We don't want to saddle the system with an overpromised, underfunded system."

But Democrats—and even some Republicans—are sure to worry. They worry that the plan won't save much money, that the sickest—and highest-cost—patients would stay in the traditional system. And they say that past experiments with Medicare health-maintenance organizations have flopped. They do not support a reformed system based on managed care

and private plans," says top Senate Finance Committee Democrat Max Baucus of Montana.

White House allies argue that a drug benefit alone is too costly and needs to be part of a more efficient system. And pharmaceutical costs are soaring by 10% or more a year. The price tag on Bush's initial drug plan would have been about \$180 billion over 10 years. Today, most Hill experts figure a 20% drug subsidy would cost in excess of \$400 billion.

Will Congress find a compromise in 2003 after failing in the past? One crucial player will be Senator John B. Breaux (D-La.), a moderate who has tried to broker a Medicare deal for years. Unlike Baucus, Breaux is tilting toward broad-based reform rather than just a drug benefit. Another powerful force is the AARP, the seniors lobby. Policy director John Rother says the group may back some reforms, but he adds: "The key is not disadvantaging people who want to stay in fee-for-service Medicare."

Another critical voice will be that of Senate Majority Leader Bill Frist (R-Tenn.), well placed to move reform—his top legislative priority—through the Senate. But Frist may find himself bogged down in other legislative battles.

Veteran Hill aides put odds of passage at 50-50 this year. If Bush pushes hard, he may be able to get some reform—and to claim credit in 2004 for helping the elderly lower their pharmaceutical bills. That achievement might neutralize a powerful Democratic issue in senior-heavy swing states such as Florida and Pennsylvania. And he'll force Democrats to choose between swallowing a bill with more structural change than they would like or killing a benefit they've been demanding for years. The \$400 billion question: In a year when the President will be distracted by Iraq, the war on terror, and a nasty battle over taxes, can he make the big push?

By Howard Gleckman



HELP FOR SENIORS: Lower drug bills?

CAPITAL WRAPUP

TITLE IX ROLLBACK?

A Bush Administration panel will recommend changes to Title IX, the 1972 law that gave women's teams equal footing with men's in high school and college sports. On Jan. 31, the Commission on Opportunities in Athletics is expected to recommend that the law be changed to disregard the proportion of males and females at a school and divide the slots equally between the sexes. The commission would even allow schools some leeway—as much as 10%—from that 50-50 split. Women's

groups say the recommendations translate to fewer slots for women—a drop of as many as 1.4 million spots in high schools and 78,000 in colleges.

BUDGET GAMES?

► President Bush's 2004 budget, set to be unveiled on Feb. 3, will use five-year estimates instead of the 10-year projections used by past Administrations. Budget Director Mitch Daniels says he'll avoid 10-year figures because of the difficulty of predicting economic activity so far into the future. But Democrats say it's a politically inspired ruse to

hide the long-term red ink created by back-loaded Bush tax cuts.

TRIAL LAWYER PAGE-TURNER

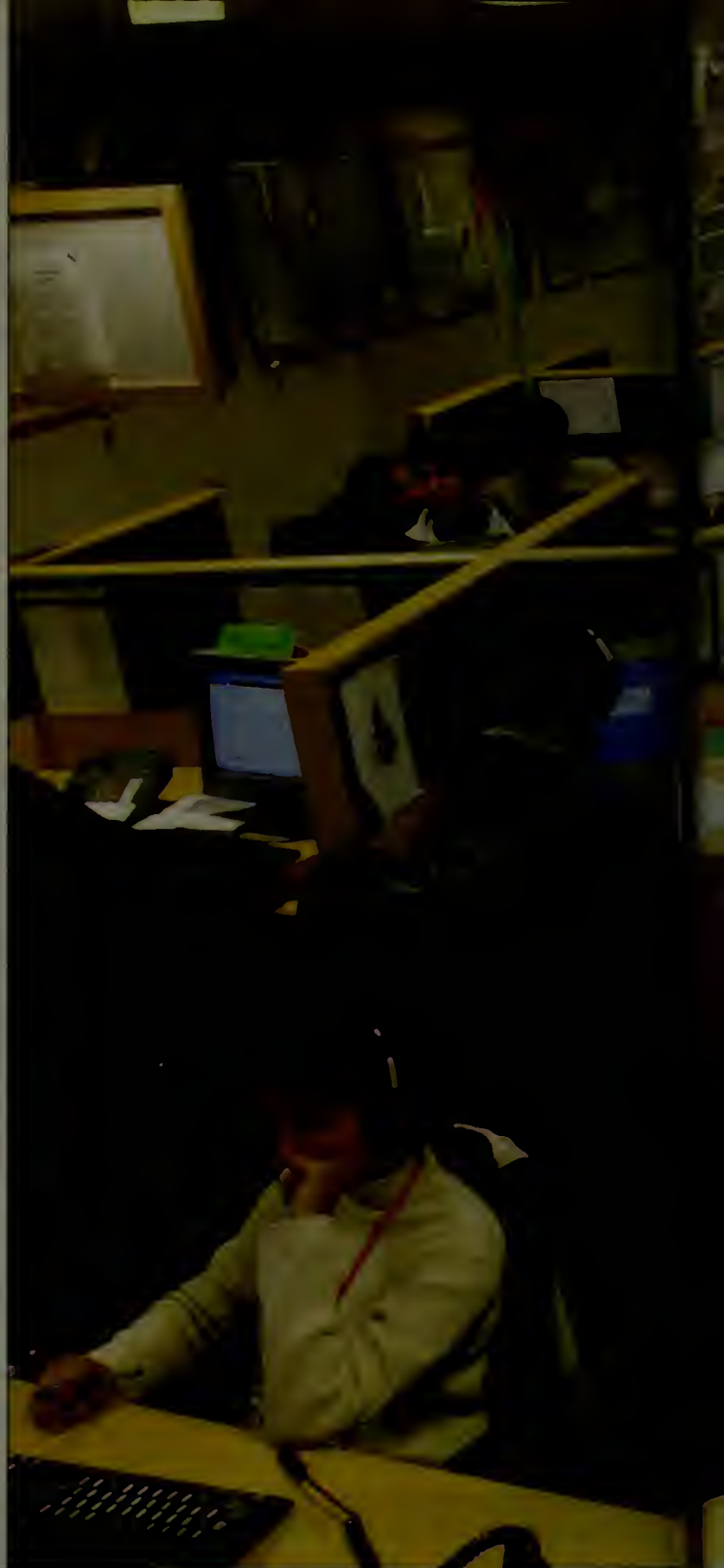
► President Bush is betting that White House hopeful Senator John Edwards' trial-lawyer past will turn off voters. The North Carolina Democrat disagrees, and is writing a book, to be published by Simon & Schuster, about his 20 years representing plaintiffs in medical-malpractice and product-injury cases. Publication is set for January, 2004, just as the Democratic primary season gets under way.

A new round of **GLOBALIZATION** is sending upscale jobs offshore. They include chip design, engineering, basic research—even financial analysis. Can America lose these jobs and still prosper?

IS YOUR JOB NEXT?

BY PETE ENGARDIO, AARON BERNSTEIN,
AND MANJEET KRIPALANI

The sense of resignation inside Bank of America is clear from the e-mail dispatch. "The handwriting is on the wall," writes a veteran information-technology specialist who says he has been warned not to talk to the press. Three years ago, the Charlotte (N.C.)-based bank needed IT talent so badly it had to outbid rivals. But last fall, his entire 15-engineer team was told their jobs "wouldn't last through September." In the past year, BofA has slashed 3,700 of its 25,000 tech



Cover Story

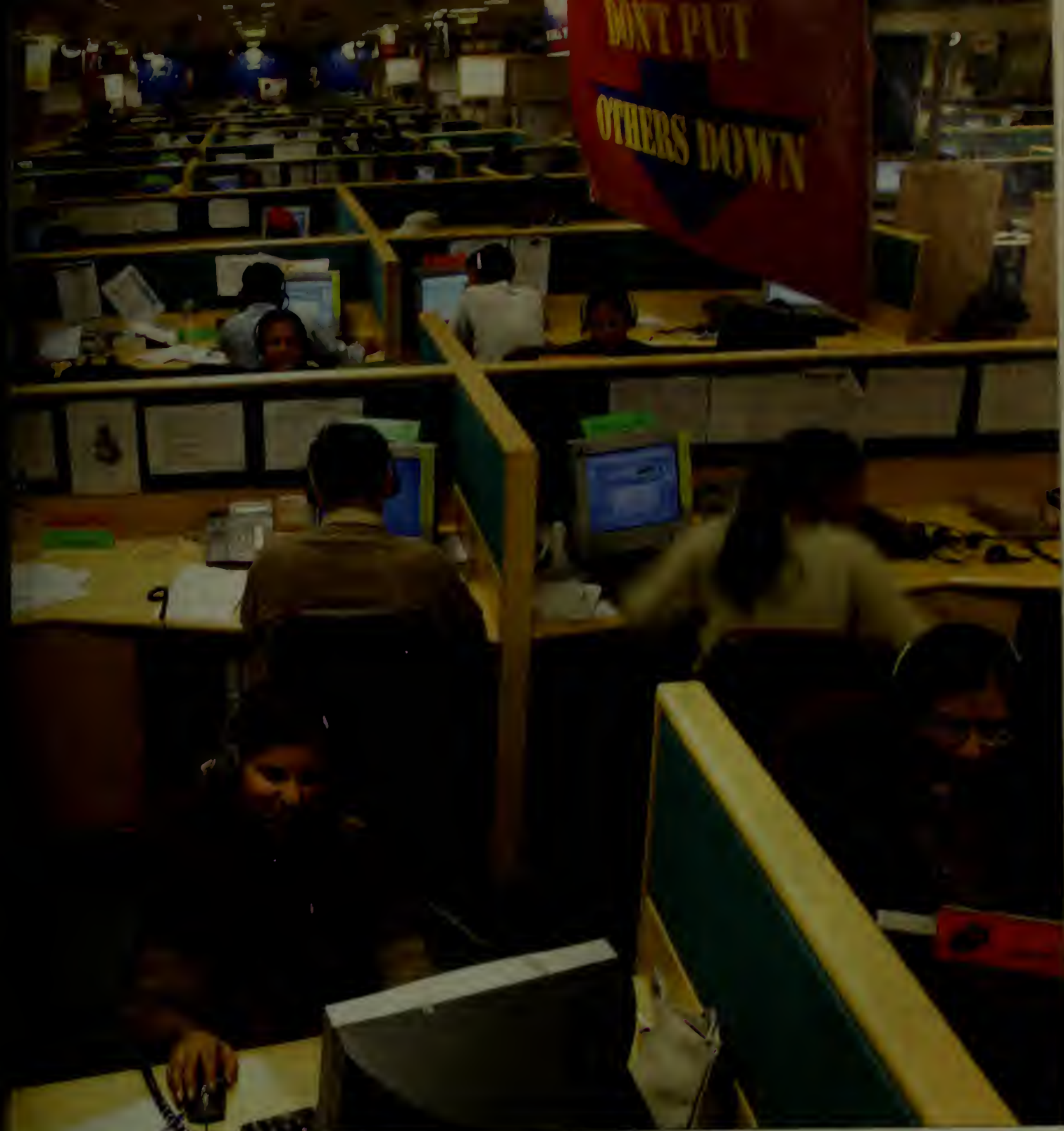
and back-office jobs. An additional 1,000 will go by March.

Corporate downsizings, of course, are part of the ebb and flow of business. These layoffs, though, aren't just happening because demand has dried up. Ex-BofA managers and contractors say one-third of those jobs are headed to India, where work that costs \$100 an hour in the U.S. gets done for \$20. Many former BofA workers are returning to college

to learn new software skills. Some are getting real estate licenses. BofA acknowledges it will outsource up to 1,100 jobs to Indian companies this year, but it insists

not all India-bound jobs are leading to layoffs.

Cut to India. In dazzling new technology parks rising on the dusty outskirts of the major cities, no one's talking about



Inside Infosys Technologies Ltd.'s impeccably landscaped 55-acre campus in Bangalore, engineers develop IT applications for BofA. Elsewhere, Infosys staffers process home loans for Greenpoint Mortgage of Novato, Calif. Near Bangalore's airport, at the offices of Wipro Ltd., radiologists interpret 30 CT scans a day for Massachusetts General Hospital. Not far away, 27-year-old engineer Dharin Shah talks excitedly about his \$10,000-a-year job designing third-generation mobile-phone chips, as sun pours through a skylight at Texas Instrument Inc. research center. Five years ago, an engineer like Shah would have made a beeline for Silicon Valley. Now, he says, "the sky is the limit here." About 1,000 miles north, on an old flour mill site outside

MIDNIGHT IN NEW DELHI

White-collar workers at Wipro Spectramind are 60% cheaper than their counterparts in the U.S.

New Delhi, all four floors of Wipro Spectramind Ltd.'s sandstone-and-glass building are buzzing at midnight with 2,500 young college-educated men and women. They are processing claims for a major U.S. insurance company and providing help-desk support for a big U.S. Internet service provider—all at a cost up to 60% lower than in the U.S. Seven Wipro Spectramind staff with PhDs in molecular biology sift through scientific research for Western pharmaceutical companies.

Behind glass-framed doors, Wipro voice coaches drill staff on how to speak American English. U.S. customers like a familiar accent on the other end of the line.

Cut again to Manila, Shanghai, Budapest, or San José, Costa Rica. These cities—and dozens more across the developing

Aerospace Engineer

Boeing has used aeronautics specialists in Russia to design luggage bins and wing parts on 777 aircraft. Next: Possible joint development of new commercial aircraft.

OFFSHORE SALARY:
\$650/month for master's in math or aeronautics.

U.S. COUNTERPART:
\$6,000/month.

world—have become the new back offices for Corporate America, Japan Inc., and Europe GmbH. Never heard of Balazs Zimay? He's a Budapest architect—and just might help design your future dream house. The name scv & Co. probably means nothing to you. But this Manila firm's accountants may crunch the numbers the next time Ernst & Young International audits your company. Even Bulgaria, Romania, and South Africa, which have a lot of educated people but remain economic backwaters, are tapping the global market for services.

It's globalization's next wave—and one of the biggest trends reshaping the global economy. The first wave started two decades ago with the exodus of jobs making shoes, cheap electronics, and toys to developing countries. After that, simple service work, like processing credit-card receipts, and mind-numbing digital toil, like writing software code, began fleeing high-cost countries.

Now, all kinds of knowledge work can be done almost anywhere. "You will see an explosion of work going overseas," says Forrester Research Inc. analyst John C. McCarthy. He goes so far as to predict at least 3.3 million white-collar jobs and \$136 billion in wages will shift from the U.S. to low-cost countries by 2015. Europe is joining the trend, too. British banks like HSBC Securities Inc. have huge back offices in China and India; French companies are using call centers in Mauritius; and German

multinationals from Siemens to roller-bearings maker INA-Schaeffler are hiring in Russia, the Baltics, and Eastern Europe.

The driving forces are digitization, the Internet, and high-speed data networks that girdle the globe. These days, tasks such as drawing up detailed architectural blueprints, slicing and dicing a company's financial disclosures, or designing a revolutionary microprocessor can easily be performed overseas. That's why Intel Inc. and Texas Instruments Inc. are furiously hiring Indian and Chinese engineers, many with graduate degrees, to design chip circuits. Dutch consumer-electronics giant Philips has shifted research and development on most televisions, cell phones, and audio products to Shanghai. In a recent PowerPoint presentation, Microsoft Corp. Senior Vice-President Brian Valentine—No. 2 exec in the company's Windows unit—urged managers to "pick something to move offshore today." In India, said the briefing, you can

A WORLD OF OUTSOURCING

CHINA

Is becoming a key product-development center for General Electric, Intel, Philips, Microsoft, and other electronics giants. Strengths are hardware design and embedded software. Call centers for Japan and South Korea are growing in coastal cities.

PHILIPPINES

More than 8,000 foreign companies source work in nine different IT parks with fiber-optic links. Strengths include huge supply of English-speaking, college-educated accountants, software writers, architects, telemarketers, and graphic artists.

MEXICO

Becoming a favorite IT and engineering outsourcing haven for U.S. companies that want to keep work close to home. As car and electronics companies move manufacturing over the border, they are boosting demand for engineers.

COSTA RICA

Cheap telecom costs and educated workforce make San José a thriving spot for call centers targeting Spanish-speaking consumers in the U.S. and Europe. Accenture has IT support and bookkeeping operations.



INDIA

DHARIN SHAH
TEXAS INSTRUMENTS
SALARY: \$10,000

The designer of 3G phone chips sees no reason to move to Silicon Valley

software engineers in India. "Now you're going to see the same trends in services that happened in manufacturing."

The rise of a globally integrated knowledge economy is a blessing for developing nations. What it means for the U.S. skilled labor force is less clear. At the least, many white-collar workers may be headed for a tough readjustment. The unprecedented hiring binge in Asia, Eastern Europe, and Latin America comes at a time when companies from

Wall Street to Silicon Valley are downsizing at home. In Silicon Valley, employment in the IT sector is down by 20% since early 2001, according to the nonprofit group Joint Venture Silicon Valley.

Should the West panic? It's too early to tell. Obviously, the bursting of the tech bubble and Wall Street's woes are chiefly behind the layoffs. Also,

ness tenet is that things go to the areas where there is the best cost of production," says Ann Livermore, head of services at Hewlett-Packard Co., which has 3,300

GOING ABROAD

Chip Designer

Engineers in India and China mainly used to write code for chips designed in the U.S. Now they develop devices for Texas Instruments, Intel, and others. With new computer-design tools, they will soon do entire systems on a chip.

OFFSHORE SALARY:

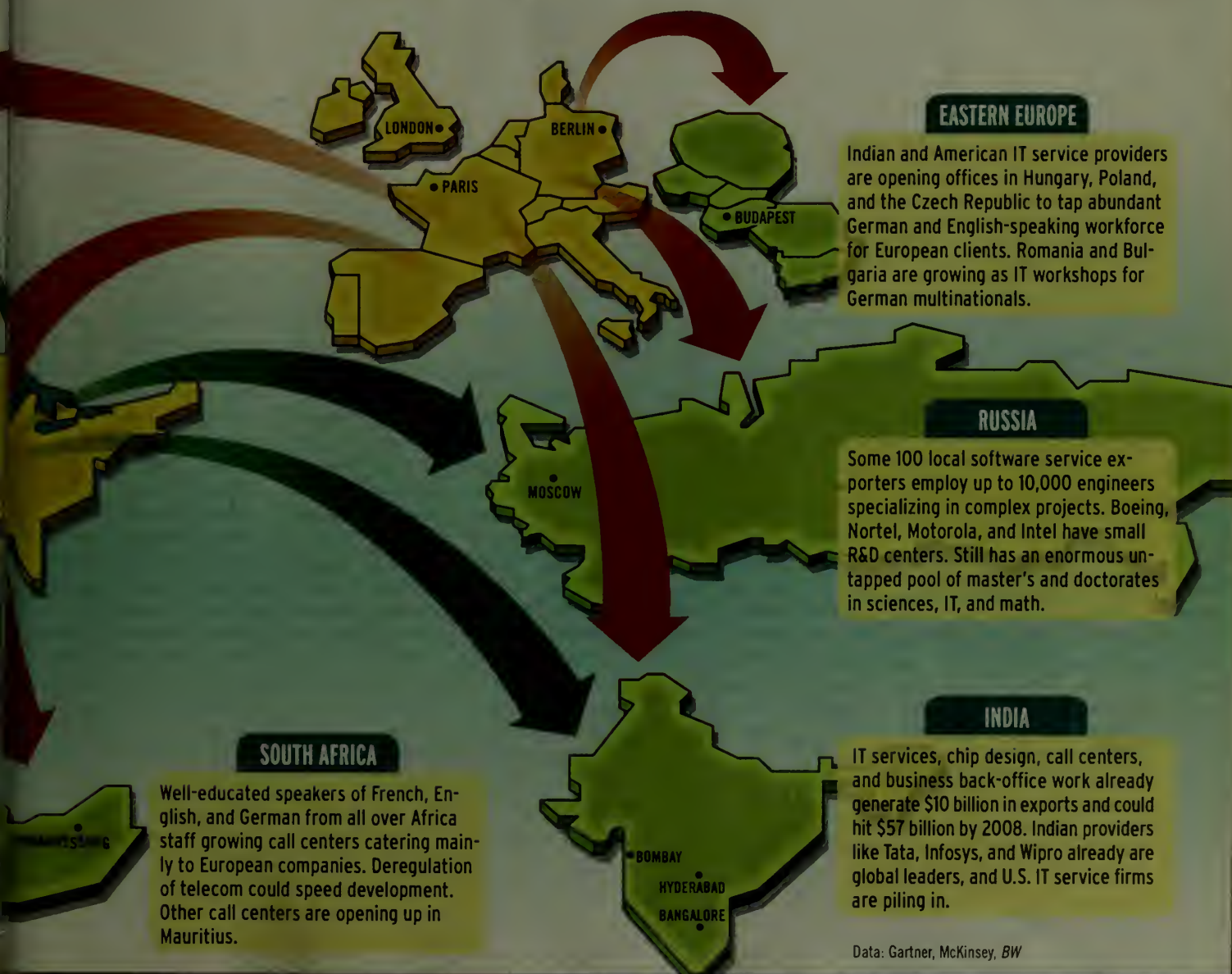
\$1,000/month in India with master's and five years' experience.

U.S. COUNTERPART:

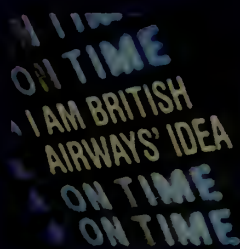
\$7,000/month.

ity work at 50% to 60% of the cost. That's heads for the price of one."

en Wall Street jobs paying \$80,000 and up getting easier to transfer. Brokerages like Man Brothers Inc. and Bear, Stearns & Co., for example, are starting to use Indian financial analysts for number-crunching work. "A basic busi-

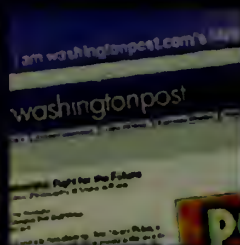


It's not how many ideas you have.
It's how many you make happen.



Spending as much as \$6.5 billion a year with more than 14,000 suppliers, British Airways needed to centralize and optimize its procurement process, reduce the number of suppliers and develop a strategic sourcing capability.

I am British Airways' idea, delivered. Accenture worked with BA to develop one of the airline industry's first successful eProcurement systems, including an intensive communication and training program to implement new processes for strategic sourcing and ensure compliance among employees. The system is generating estimated annual savings of \$260 million.



washingtonpost.com wanted to create state-of-the-art interactive resources to help meet the needs of both its rapidly growing national audience and its loyal local audience.

I am washingtonpost.com's idea, delivered. Accenture and washingtonpost.com teamed to introduce mywashingtonpost.com, a fast-loading personalized news delivery service that has more than doubled user registrations, and Jobs on washingtonpost.com, an innovative career management resource that helped increase recruitment revenues by 300% in the first year.



To develop a sustainable competitive advantage in the global chemical industry, Dow sought to aggressively leverage its investment in information technology, dramatically improving systems productivity and significantly reducing application costs and time to market.

I am Dow's idea, delivered. In a unique outsourcing relationship, Accenture helped Dow consolidate nearly all of its IT activities into four regional centers. Jointly staffed with professionals from both companies, the centers have accelerated time to market by 10%, increased overall productivity by 30% and made a hefty contribution to \$70 million in annual IT savings since 1992.

I AM YOUR IDEA

COMPETITORS MAY BE CLOSER
THAN THEY APPEAR

It's not how many ideas you have. It's how many you make happen. So whether it's your idea or Accenture's, we'll help you turn innovation into results. See how at accenture.com

Consulting • Technology • Outsourcing • Alliances

[>]
accenture

Innovation delivered.

GOING ABROAD

Architect

Computer-generated sketches for everything from major industrial plants to suburban homes are being converted into blueprints by architects in the Philippines, Hungary, Chile, and other nations.

OFFSHORE SALARY:

\$250/month in the Philippines.

U.S. COUNTERPART:

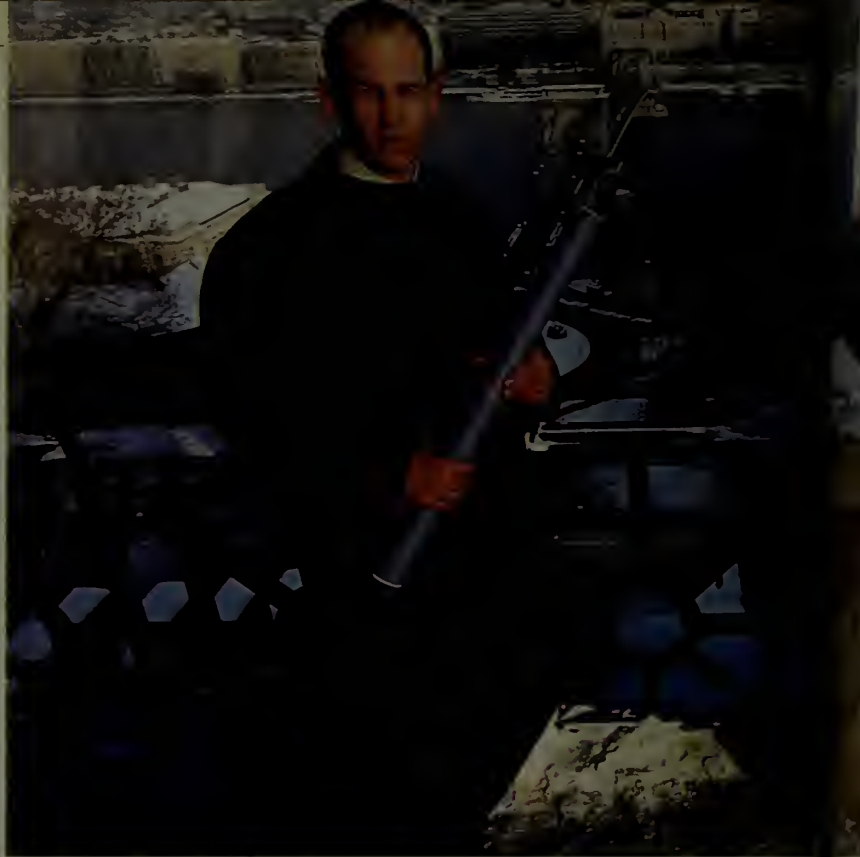
\$3,000/month and up.

any impact of offshore hiring is hard to measure, since so far a tiny portion of U.S. white-collar work has jumped overseas. For security and practical reasons, corporations are likely to keep crucial R&D and the bulk of back-office operations close to home. Many jobs can't go anywhere because they require face-to-face contact with customers. Americans will continue to deliver medical care, negotiate deals, audit local companies, and wage legal battles. Talented, innovative people will adjust as they always have.

Indeed, a case can be made that the U.S. will see a net gain from this shift—as with previous globalization waves. In the 1990s, Corporate America had to import hundreds of thousands of immigrants to ease engineering shortages. Now,

by sending routine service and engineering tasks to nations with a surplus of educated workers, the U.S. labor force and capital can be redeployed to higher-value industries and cutting-edge R&D. "Silicon Valley doesn't need to have all the tech development in the world," says Doug Henton, president of Collaborative Economics in Mountview, Calif. "We need very-good-paying jobs. Any R&D that is routine can probably go." Silicon Valley types already talk about the next wave of U.S. innovation coming from the fusion of software, nanotech, and life sciences.

Globalization should also keep services prices in check, just as it did with clothes, appliances, and home tools when manufacturing went offshore. Companies will be able to keep shaving overhead



costs and improving efficiency. "Our comparative advantage may shift to other fields," says City University of New York economist Robert E. Lipsey, trade specialist. "And if productivity is high, the U.S. will maintain a high standard of living. By spurring economic development in nations such as India, meanwhile, U.S. companies will have larger foreign markets for their goods and services."

For companies adept at managing a global workforce, the benefits can be huge. Sure, trusting administration and R&D to far-flung foreigners sounds risky. But Corporate America already has become comfortable hiring out companies to handle everything from product design and tech support to employee benefits. Letting such work cross national boundaries isn't

GLOBALIZATION

A global pool of skilled workers is drawing more Western companies

NUMBER OF NATURAL-SCIENCE AND ENGINEERING COLLEGE GRADUATES

	BAs		MAs and PhDs	
	1989	1999	1989	1999
CHINA	127,000	322,000	19,000	41,000
INDIA	165,000	251,000	64,000	63,000
PHILIPPINES	40,000	66,000	255	937
MEXICO	32,000	57,000	340	63,000
U.S.	196,000	220,000	61,000	77,000

Data: National Science Foundation, *BusinessWeek*

COMPANY	NO. OF WORKERS AND COUNTRY	TYPE OF WORK MOVED
ACCENTURE	5,000 in the Philippines by 2004	Accounting, software back-office work
CONSECO	1,700 in India, 3 more centers planned	Insurance claim processing
DELTA AIR LINES	6,000 contract workers in India, Philippines	Airline reservation customer service
FLUOR	700 in the Philippines	Architectural blueprints
GENERAL ELECTRIC	20,000 in India alone by yearend; big China R&D center	Finance, IT support R&D for medical lighting, aircraft



HUNGARY

BALAZS ZIMAY

ARCHITECT

PAY: \$18/HOUR

Zimay can design your dream house from Budapest—for half what draftsmen in the U.S. charge

al leap. Now, American Express, Dell Computer, Eastman Kodak, and other companies can round-the-clock customer care while keeping in check. What's more, immigrant Asian engineers in the U.S. labs of TI, IBM, and Intel for des have played a big, hidden role in American tech breakthroughs. The rrence now is that Indian Chinese engineers are aging R&D teams in their e countries. General Electric Co., for example, loys some 6,000 scientists and engineers in oreign countries. GE Medical Services inte-es magnet, flat-panel, and diagnostic imaging nologies from labs in China, Israel, Hungary, ace, and India in everything from its new

X-ray devices to \$1 million CT scanners. "The real advantage is that we can tap the world's best talent," says GE Medical Global Supply Chain Vice-President Dee Miller.

That's the good side of the coming realignment. There are hazards as well. During previous go-global drives, many companies ended up repatriating manufacturing and design work because they felt they were losing control of core businesses or found them too hard to coordinate. In a recent Gartner Inc. survey of 900 big U.S. companies that outsource IT work offshore, a majority complained of difficulty communicating and meeting deadlines. As a result, predicts Gartner Inc. Research Director Frances Karamouzis, many newcomers will stumble in the first few years as they begin using offshore service workers.

A thornier question: What happens if all those displaced white-collar workers can't find greener pastures? Sure, tech specialists, payroll administrators, and Wall Street analysts will land new jobs. But will they be able to make the same money as before? It's possible that lower salaries for skilled work will outweigh the gains in corporate efficiency. "If foreign countries specialize in high-skilled areas where we have an advantage, we could be worse off," says Harvard University economist Robert Z. Lawrence, a prominent free-trade advocate. "I still have faith that globalization will make us better off, but it's no more than faith."

If the worries prove valid, that could reshape the globalization debate. Until now, the adverse impact of free trade has been confined largely to blue-collar workers. But if more politically powerful middle-class Americans take a hit as white-collar jobs move offshore, opposition to free trade could broaden.

When it comes to developing nations, however, it's hard to see a downside. Especially for those countries loaded with college grads who speak Western languages, outsourced white-collar work will likely contribute to economic development even more than new factories making sneakers

GOING ABROAD

Financial Analyst

U.S. brokerages, investment banks, and rating agencies are buying equity research and industry reports from finance specialists in India. They mine the same databases available to Wall Street.

OFFSHORE SALARY:
\$1,000/month in India.

U.S. COUNTERPART:
\$7,000/month and up.

Cover Story

WHITE COLLAR

are eager to cut costs . . .

. . . a trend that's likely to grow

NO. OF WORKERS AND COUNTRY	TYPE OF WORK MOVING	NUMBER OF U.S. JOBS MOVING OFFSHORE*		
		2005	2010	2015
4,000 in China, India	Credit-card, loan processing	LIFE SCIENCES 3,700	14,000	37,000
3,000 in India by 2005	Chip design, tech support	LEGAL 14,000	35,000	75,000
500 in India, China by year end	Software design, IT support	ART, DESIGN 6,000	14,000	30,000
Doubling India staff to 4,000	Software design, customer support, accounting	MANAGEMENT 37,000	118,000	288,000
700 Chinese engineers in China	Consumer electronics R&D	BUSINESS OPERATIONS 61,000	162,000	348,000
650 in Philippines, 150 in China	Tech support, accounting	COMPUTER 109,000	277,000	473,000
		ARCHITECTURE 32,000	83,000	184,000
		SALES 29,000	97,000	227,000
		OFFICE SUPPORT 295,000	791,000	1,700,000
		TOTAL 588,000		3,300,000

Data: Gartner Inc., McKinsey & Co., Forrester Research Inc., BusinessWeek

*To low-wage countries such as India, China, Mexico, and the Philippines Data: Forrester Research Inc.

Accountant

Big corporations are having book-keeping, such as accounts receivables, done in Ireland, India, and the Philippines and are shifting work on taxes and financial reports there, too. Soon, offshore accountants may do everything but on-site audits.

OFFSHORE SALARY:
\$300/month in Philippines with master's.

U.S. COUNTERPART:
\$5,000/month and up.

or mobile phones. By 2008 in India, IT work and other service exports will generate \$57 billion in revenues, employ 4 million people, and account for 7% of gross domestic product, predicts a joint study by McKinsey & Co. and Nasscom, an Indian software association.

What makes this trend so viable is the explosion of college graduates in low-wage nations. In the Philippines, a country of 75 million that churns out 380,000 college grads each year, there's an oversupply of accountants trained in U.S. accounting standards. India already has a staggering 520,000 IT engineers, with starting salaries of around \$5,000. U.S. schools produce only 35,000 mechanical engineers a year; China graduates twice as many. "There is a tremendous pool of well-trained people in China," says Johan A. van Splunter, Philips' Asia chief executive.

William H. Gates III, for one, is dipping into that pool. Although Microsoft started later than many rivals, it is moving quickly to catch up. In November, Chairman Gates announced his company will invest \$400 million in India over the next three years. That's on top of the \$750 million it's spending over three years on R&D and outsourcing in China. At the company's Beijing research lab, one-third of the 180 programmers have PhDs from U.S. universities. The group helped develop the "digital ink" that makes handwriting show up on Microsoft's new tablet PCs and submitted four scientific papers on computer graphics at last year's prestigious Siggraph conference in San Antonio. Hyderabad, India, meanwhile, is key to Microsoft's push into business software.



PHILIPPINES

MARIBETH MEDINA
SGV, ERNST & YOUNG
STARTING PAY:
AROUND \$4,000

Manila number-crunchers work on the books of U.S. companies

This is no sweatshop work. Just years out of college, Gaurav Daga, 28, India project manager for software that lets programs running on Unix-based computers interact smoothly with Windows applications. Daga's \$11,000 salary is a princely sum in a nation with a per capita annual income of \$500, where a two-room flat goes for \$125 a month. Microsoft is adding 10 Indians a month to its 150 engineer center and indirectly employs hundreds more at IT contractors.

"It's definitely a cultural change to use foreign workers," says Sivakumaran Somasegar, Microsoft's vice-president for Windows engineering. "But if I can save a dollar, hallelujah."

Corporations are letting foreign operations handle internal finances as well. Procter & Gamble Co.'s 650 Manila employees, most of whom have business and finance degrees, help prepare U.S. tax returns around the world. "All the process can be done here, with just final submission done by local tax authorities" in the U.S. and other countries.

THE NEW COLD WAR AT BOEING

You've heard about those companies that hire cheap overseas professionals to do their accounting, software programming, and architectural work, and you want to jump on the bandwagon. Not so fast. Your U.S. staff might just balk. There may be no better example of that than Boeing Co.

Nearly 12 years ago, as the Soviet Union collapsed, Boeing started recruiting out-of-work Russian aerospace engineers to collaborate on space and commercial-airplane projects. At first, their numbers were small. But the Russians did good work for as little as \$5,400 a

year. Boeing began to view its Russian staff as the vanguard of a new push into the European market, and in 1998 it opened its Moscow Design Center, which a year ago boasted nearly 700 engineers. From the day the center opened, engineers at Boeing's Seattle hub had voiced concerns. Last year, those fears boiled over.

Boeing's 22,000 engineers in Seattle, represented by the Society of Professional Engineering Employees in Aerospace (SPEEA), threatened to walk out in December, when their contract expired, if the Russian venture wasn't cut back.

Partly as a result, Boeing reduced its corps of Moscow engineers to about 100, though the company won't be precise. "The underlying fear is that we're losing our technology and our competitive advantage, and we're losing jobs," Dave Landress, a test engineer and union rep. The union has good reason for concern: Struggling to reduce costs to cope with the sharp falloff in orders from the ailing airline industry, Boeing has laid off 5,000 engineers since 2000.

Still, Boeing has refused to yield entirely to the union's demands. It has declined, for instance, to adopt tougher

tries, says

Arun Khanna, P&G's Manila-based Asia accounting director.

Virtually every sector of the financial industry is undergoing a similar revolution. Processing insurance claims, selling stocks, and analyzing companies can all be done in Asia for one-third to half of the cost in the U.S. or Europe. Wall Street investment banks and brokerages, under mounting pressure to offer independent research to investors, are buying equity analysis, industry reports, and summaries of financial disclosures from outfits such as Smart Analyst Inc. and OfficeTiger that employ financial analysts in India. By mining databases over the Web, offshore staff can scrutinize an individual's credit history, access corporate public financial disclo-

ures, and troll oceans of economic statistics. "Everybody these days is drawing on the same electronic reservoir of data," says Ravi Aron, who teaches management at the Wharton School at University of Pennsylvania.

Architectural work is going global, too. Fluor Corp. of Aliso Viejo, Calif., employs 1,200 engineers and draftsmen in the Philippines, Poland, and India to turn layouts of giant industrial facilities into detailed specs and blueprints. For a \$1-billion-dollar petrochemical plant Fluor is designing in Saudi Arabia, a job requiring 50,000 man-hours, Fluor has 200 young Filipino engineers earning less than \$3,000 a year collaborating in real time with elite U.S. and British engineers making up to \$90,000 via Web portals. The principal Filipino engineer on plumbing design, 30-year-old Art Aycardo, pulls down \$1,100 a month—enough to buy a Mitsubishi Lancer, send his three children to private school, and take his wife on a recent U.S. trip. Fluor CEO Alan Boeckmann makes no apologies. At a recent meeting in Houston, employees asked point-blank why he is

sending high-paying jobs to Manila. His response: The Manila operation knocks up to 15% off Fluor's project prices. "We have developed this into a core competitive advantage," Boeckmann says.

It's not just a game for big players: San Francisco architect David N. Marlatt farms out work on Southern California homes selling for \$300,000 to \$1 million. He fires off two-dimensional layouts to architect Zimay's PC in Budapest. Two days later, Marlatt gets back blueprints and 3-D computer models that he delivers to the contractor. Zimay charges \$18 an hour, vs. the up to \$65 Marlatt would pay in America. "In the U.S., it is hard to find people to do this modeling," Zimay says. "But in Hungary, there are too many architects."

So far, white-collar globalization probably hasn't made a measurable dent in U.S. salaries. Still, it would be a mistake to dismiss the trend. Consider America's 10 million-strong IT workforce. In 2000, senior software engineers were offered up to \$130,000 a year, says Matt Milano, New York sales manager for placement firm Atlantis Partners. The same job now pays up to \$100,000. Entry-level computer help-desk staffers would fetch about \$55,000 then. Now they get as little as \$35,000. "Several times a day, clients tell me they are sending this work off shore," says Milano. Companies that used to pay such IT service providers as IBM, Accenture, and Electronic Data Services \$200 an hour now pay as little as \$70, says Vinnie Mirchandani, CEO of IT outsourcing consultant Jetstream Group. One reason, besides the tech crash itself, is that Indian providers like Wipro, Infosys, and Tata charge as little as \$20. That's why Accenture and EDS, which had few staff in India three years ago, will have 5,000 each by next year.

Outsourcing experts say the big job migration has just begun. "This trend is just starting to crystallize now because every chief information officer's top agenda item is to cut budget," says Gartner's Karamouzis. Globalization trailblazers, such as GE, AmEx, and Citibank, have spent a decade going through the learning curve and now are ramping up fast. More cautious companies—insurers, utilities, and the like—are entering the fray. Karamouzis expects 40% of Ameri-

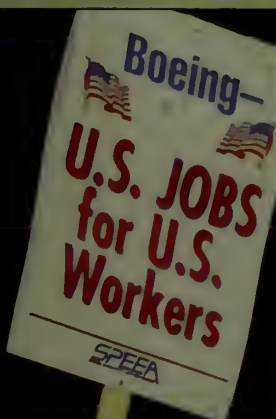
GOING ABROAD

Info-Tech Support

No longer are Asian IT engineers only writing routine software applications and maintaining mature computer systems. Now they are remotely managing sophisticated networks, designing Web sites, and developing software for entire business processes for big Western corporations.

OFFSHORE SALARY:
\$500/month in India for database manager

U.S. COUNTERPART:
Up to \$10,000/month.



WARPATH

Engineering union member Craig Buckham protesting a Russian venture

in the future, company insiders say.

The strategy is to integrate the cheaper Russian engineers into the design process for everything Boeing makes. The Russian staff—spread over seven cities—already works on everything from redesigning jet-wing parts to designing components for the International Space Station. Boeing's other goal is to develop a 24-hour global workforce, made possible by a satellite link from

job-security language. The best the union could muster: a nonbinding letter acknowledging the concerns of both sides. And Boeing still plans to shift jobs to Russia in the

Russia to Boeing's Seattle offices. "We have achieved substantial cost reductions on every airplane we deliver with the help of our Moscow team," Hank Queen, Boeing vice-president for engineering, told SPEEA members recently.

It's not just lower pay that makes Russia so attractive. The company hopes a local presence will help to win Russian orders. It hasn't so far: Last summer, Aeroflot weighed the pros and cons of the Boeing 737 vs. the Airbus A320 and picked Airbus, which opened its own Russian design center last year and plans to hire 50 engineers. Still, given the savings, Boeing is likely to keep shifting work to Russia, which is sure to keep some engineers sleepless in Seattle.

By Stanley Holmes in Seattle, with Simon Ostronsky in Moscow

ca's top 1,000 companies will at least have an overseas pilot project under way within two years. The really big offshore push won't be until 2010 or so, she predicts, when global white-collar sourcing practices are standardized.

If big layoffs result at home, corporations and Washington may have to brace for a backlash. Already, New Jersey legislators are pushing a bill that would block the state from outsourcing public jobs overseas. At Boeing Co., an anxious union is trying to ward off more job shifts to the aircraft maker's new 350-person R&D center in Moscow (page 58).

The truth is, the rise of the global knowledge

industry is so recent that most economists haven't begun to fathom the implications. For developing nations, the big beneficiaries will be those offering the speediest and cheapest telecom links, investor-friendly policies and ample college grads. In the West, it's far less clear who will be the big winners and losers. But we'll soon find out.

With Frederik Balfour in Manila, Brian Greene in Atlanta, and Jay Greene in Seattle

BusinessWeek online

For more on white-collar globalization, see the Feb. 3 issue online at www.businessweek.com

THE WAY, WAY BACK OFFICE

Drop by the Manila offices of Source 1 Asia at two or three in the morning, and you might think you've stumbled into some late-night college cram session. Some 750 men and women in their early 20s, jazzed on cappuccino and junk food, are pulling all-nighters in front of their computers. The walls of the cavernous room are painted hot pink, purple, and lime green. But it's not Calculus 101 that has these Filipinos burning the midnight oil. They're busy handling credit-card queries from ChevronTexaco Corp. customers and walking users through the intricacies of Microsoft Corp. software.

Say "call center" to most Americans, and they think of tedious, low-paid, dead-end jobs fielding complaints about phone bills or bank statements. But in the Philippines, call centers are viewed as a gateway to exciting careers working on behalf of the best service companies in the world. Some 10,000 Filipinos, almost all with college degrees, staff 45 such centers around the clock, seven days a week. Companies like American Express, Eastman Kodak, Intel, Microsoft, and Dell Computer are flocking to the Philippines, lured by the country's low wages, generous tax breaks, and ample supply of English speakers. The call-center staff "are a very, very talented pool of people," says Arun Khanna, Procter & Gamble's Manila-based accounting director.



WIRED
Filipinos such as Philip Sy see call centers as a stepping stone to an exciting career

"They're committed, and comfortable with being trained and taking on responsibility."

Philip Sy is a typical call center worker. After graduating in 1998 from the University of the Philippines with a degree in German and Italian, Sy took a \$250-a-month job at Source 1 providing assistance to people installing software on their computers. Now 28, Sy is a Source 1 operations manager overseeing 150 people and earning \$13,000 a year, a small fortune in a country where 40% of the population lives on less than a dollar a day. "Considering the career growth opportunities, a job here is pretty desirable," says Sy, practicing yo-yo tricks as he wanders the floor monitoring calls. Another Source 1 employee, Karen Betita, 25, is the daughter of a diplomat and has a college degree in communications. She says she views the job as a good starting place for a marketing career.

Because they are able to hire some of the country's best talent, call centers in the Philippines are moving far beyond telemarketing. At the offices of

Tampa (Fla.)-based Sykes Enterprises in the heart of Manila's Makati financial district, some of the 2,200 agents troubleshoot for control systems for oil rigs made by a U.S. manufacturer. "The salary difference between a qualified engineer in the U.S. and here is colossal—at least 10 times," says Michael Henderson, Asia managing director at Sykes. Others advise customers interested in life insurance and mu-

al funds offered by a major U.S. financial services company that Source 1 says it cannot identify. To get the licenses needed to market U.S. securities, Sykes flies Filipino staff to the U.S. and Hong Kong to take tests given by the National Association of Securities Dealers. Others at Sykes provide online support for users of Microsoft's latest Internet-access service, MSN 8.0, and help buyers figure out how to operate Kodak digital cameras. Says 24-year-old Sykes employee Michelle Abreu: "I see myself working in the industry for a long time."

It's that kind of attitude—and the fact that good jobs are scarce in the Philippines—that helps keep turnover at call centers under 10% a year, compared with upwards of 70% in the U.S. Indeed, Nathan Shapiro, Source 1's director of Asian operations, says he has just one headache: The Filipino employees are too polite, leading to longer, costly phone chats. "We have to teach them to be more rude," says Shapiro. That may be the one area in which U.S. service providers can't be beaten.

By Frederik Balfour in Manila

A building is no longer just a place you do business. It's a silent partner.

The best "partners" make everyone around them perform better. With building technology solutions from Siemens, your

building becomes more responsible. And can even become a manageable asset. We create and integrate core infrastructure systems like HVAC, lighting, energy management, fire safety and security systems, so your working environment is safer and more comfortable. Not to mention more efficient. Basically, we think your building should be working for you. Not the other way around. When you have 425,000 minds working together all around the globe, including 75,000 right here in the U.S., innovative solutions emerge. And that's what it takes to change the world.

SIEMENS

Global network of innovation

energy & power • information & communication • medical systems & healthcare
transportation • lighting • transportation • industry & automation • building technologies

COMMENTARY

By Mark Hyman

A GOLD MEDAL FOR MANAGEMENT DYSFUNCTION

Is there a way to incorporate backbiting and trash-talking into an Olympic sport open to participants of both genders, all ages, and every position of power—including, say, a former Maytag Corp. CEO? (Oops, we left out ruthless rumor-mongering.)

If there is, we've got gold medalists-in-waiting out there in Colorado Springs. Ladies and gentlemen, say

five USOC vice-presidents called for the resignation of USOC President Marty Mankamy, alleging that the 69-year-old grandmother, a volunteer, was using the ethics flap to force Ward out.

Whether Ward is victim or another ethically-challenged CEO isn't clear now and may never be, even when an independent investigation reports on his role in about two months. By then,

concerned that the endless missteps...[are] damaging the Olympic brand and, by association, our own image, and diluting the return on our Olympic investment."

One reason sponsor patience is wearing so thin is that the number of troubled USOC leaders in recent years is larger than the Olympic delegations of some Caribbean nation



IN THE HOT SEAT

Ward is the USOC's fourth chief executive since May, 2000

Ward's predecessor, Norm Blake, came in like a turn-around torrent, clashed with volunteer leaders, and was gone in nine months. Volunteer Sandy Baldwin, who ushered Blake in—and then out—had to resign as president after it was discovered that she had inflated her résumé.

D'Alessandro, who figure \$25 million in Hancock money has filtered down to the

hello to the world champs of churlish behavior and management dysfunction—the U.S. Olympic Committee.

That might be funny if we weren't watching the apparent implosion of the organization we trust to nurture our Olympic heroes by building a fire in their bellies and guiding their training. Instead, the USOC has become a soap opera of questionable ethics, personality clashes, dramatic resignations, and résumé fudging.

Lloyd Ward, the fourth USOC chief executive since May, 2000, is the latest official in the hot seat. He's accused of using his influence to help a company that employs his brother, Rubert, go after an energy contract for the 2003 Pan American Games in the Dominican Republic.

In the politically charged USOC, which has long pitted a cadre of powerful volunteers against the managers hired to run the place, getting even is as important as getting to the bottom of things. So now, Ward's accusers have become the accused. On Jan. 20,

permanent damage to the USOC may be already done. "We're always asking athletes to do the right thing for the right reason," says Brian Derwin, a former Olympic weightlifter who resigned from the USOC on Jan. 16 to protest an internal report that found Ward had not violated ethics rules. "But here, it's like: 'It's a rules violation, but we can maneuver out of it.'"

Corporate sponsors, who pump millions into USOC coffers either directly or as global sponsors of the Olympics, are getting scandal fatigue. Although none has bailed yet, the danger of defections is evident in a Jan. 20 letter to Ward and Mankamy from David F. D'Alessandro, chairman of John Hancock Financial Services Inc., one of 10 global sponsors. In it he fumes: "We are

USOC in the past nine years, says the management structure—too many volunteers trying to run the show—is a big part of the personnel messes. "Norm Blake was not without talent," he says. "Neither is Lloyd Ward. It's a funny place. The moment they make you captain of the ship, you walk on board, and you might as well keep walking because they have a plank for you on the other side. You're in the water before you know it."

It's not just sponsors and athletes who should be concerned about the disarray at the USOC, however. With

Europe-dominated International Olympic Committee still smarting from the Salt Lake City scandal, this could be just the excuse the Lords of the Rings need to deny New York's bid for the Summer Games in 2012.

With Jay Weiner

Behind the USOC Are Big Corporate Names

Among its top sponsors are:

ALLSTATE	GATEWAY
AT&T	GM
BofA	HALLMARK
BUO	HOME DEPOT
OELTA	OFFICE DEPOT
CHEVRONTXACO	UNITED AIRLINES

DATA: U.S. OLYMPIC COMMITTEE

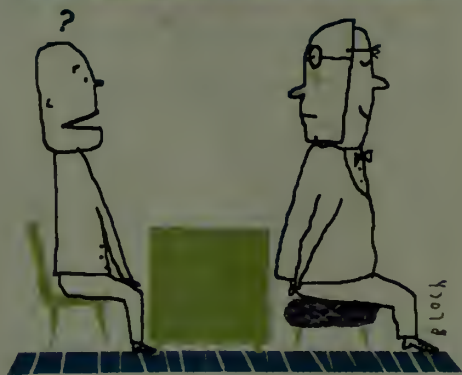
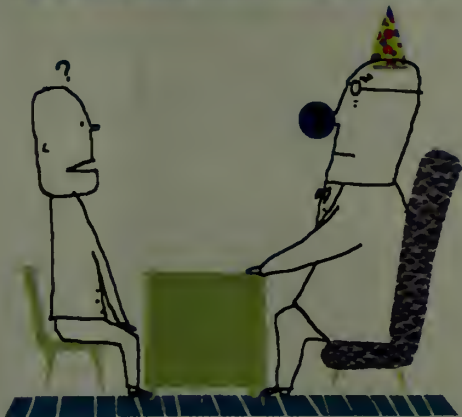
IMPROVING THE INTERVIEW

How techniques show bosses how applicants react to stress

Remember the days when companies such as Microsoft and McKinsey reveled in subjecting job candidates to mind-crunching strategy sessions? If you thought that was rough, imagine an interview in which no amount of research or grilling of insiders can help. Imagine instead that all you do is knock back a healthy break, pick out your nicest suit, and hope for the best. In the new interview, you're not just testing what you know. You're also testing who you are.

It's called the situational interview, and it's quickly becoming a must in the job-seeking world. In the post-Enron culture of caution, corporations are heeding an obvious insight: that a gold-plated résumé and winning personality are not as accurate in determining job performance as Wall Street analysts are at picking stocks. Now, with shareholder scrutiny, hiring slowdowns, and expense-slashing, no manager can afford to hire the wrong person. Companies ranging from J.P. Morgan Chase to General Electric Co.—and hundreds more—are switching to the new methods. And no wonder. Whereas the conventional interview has been found to be only 7% accurate in predicting job performance, situational interviews deliver a rating of 54%—the most of any interviewing tool (table).

The situational technique's superiority stems from its ability to trip up even the savviest of interviewees. Of course,



every applicant must display a healthy dose of occupational knowhow, but behavior and ethical backbone play a big role—and that can't be easily gamed in this drama-class-meets-the-office scenario. For example, a prospective analyst at a Wall Street bank might have to face, say, a customer with an account discrepancy. It's not happening on paper, but in real time—with managers and experts watching nearby. The interviewer, or an outside human-resource company's

trained assessor, plays the role of an irate customer on the phone, angry about money lost when a trade wasn't executed on time. It's set up as an obvious mistake on the banker's part.

Interviewers watch the candidates' reactions: how they process the complex account information, their ability to talk the client down, what their body language displays about their own shortcomings, and which words they choose. "These are very vivid recreations. There's no time to put on an act," says Ron Garonzik, who heads the assessment-services practice at human-resources consultant Hay Group. In this instance, not being honest about the mistake or evincing anger or frustration—no matter how glowing your résumé—means you're out.

Behavioral interviews are also being rounded out by other tools that, until recently, had been reserved for elite hires. Personality-testing outfit Caliper, for example, which probes candidates for emotional-intelligence skills and job aptitude, has seen its business jump 20% this year, according to President and CEO Herb Greenberg. FedEx, Wal-Mart, and BASF all started using personality testing for applicants up and down the ladder in the past year, says Greenberg.

It isn't cheap: A simple two-hour Caliper test with analysis costs \$245. An outsourced situational interview runs upwards of \$500 a pop. Background checks, which have increased dramatically in the past year, are also a crucial element in screening candidates. Using all of them adds hundreds of dollars to the cost of hiring—but can save millions by avoiding the wrong choice.

Clearly, the new interview isn't without its drawbacks. Companies run the risk of antagonizing candidates, who may feel as if some line has been crossed into personal territory. Moreover, some companies worry about the fairness of personality tests. "You've got to make sure there are no inherent gender or racial biases in the test," says a development executive at a large New York investment bank that recently amped up its use of role-playing.

Paltry raises. Vanishing bonuses. Ballooning health-care costs. Add now another thing for job-shoppers to worry about—their unscripted selves.

By Jennifer Merritt
in New York

Farewell, Formality

The interview is most of us know it is fast disappearing. Companies are turning to new, more accurate alternatives.

INTERVIEW STYLE	ACCURACY IN PREDICTING PERFORMANCE
STANDARD INTERVIEW The sit-down affair with management or personnel	7%
RESUME ANALYSIS Quasi-scientific résumé sifting	37%
WORK SAMPLE TEST Pen-and-paper skills tests	44%
ASSESSMENT CENTER Lengthy, off-site skills/personality workup	44%
SITUATIONAL INTERVIEW Candidates role-play in mock scenarios	54%

Data: Handbook of Industrial & Organizational Psychology



Your car will warn you before

In the future, this is one kind of trouble we'll be able to help you avoid. That's because we're developing technology that enables cars to recognize stop signs, speed limits, no passing warnings and other traffic signs. By alerting the driver to them in advance, the car can help prevent dangerous situations and traffic accidents. At DaimlerChrysler Research, we're developing these intelligent technologies today. For the automobile of tomorrow.

To obtain more detailed information on the 'Vision of Accident free Driving' visit www.daimlerchrysler.com.



027.0011 DCC / USA

ey do.

DAIMLERCHRYSLER
Answers for questions to come.

STRATEGIES

HOLDING STEADY

As rivals sputter, can Southwest stay on top?



**HIGH ENOUGH FOR NOW:
PARKER AND BARRETT
ARE THROTTLING BACK
THE CARRIER'S GROWTH**

In the hours immediately after the terrorist attacks on September 11, 2001, the newly promoted executives at Southwest Airlines Co. made a bold decision. Without even consulting the legendary co-founder and current chairman, Herbert D. Kelleher, Chief Executive James F. Parker and President Colleen C. Barrett swiftly agreed to grant refunds to all customers who asked for them, regardless of any ticket restrictions. Only later did Parker learn that the airline could have had to shell out several hundred million dollars, an unsettling prospect, given the uncertainty of the times and a

\$187 million profit-sharing payment that was coming due. "Fortunately, the potential flood of refund claims never came," says Parker, in his typically understated style. Quite the opposite: One devoted customer even sent \$1,000 to support Southwest after the attacks.

Now, the low-fare leader is watching its biggest competitors struggle mightily, in and out of bankruptcy court. So Southwest's gutsy leaders must be reveling in their rivals' misery, ready to press their advantage in the industry's worst-ever downturn, right?

Not exactly. Steeped in Kelleher's disciplined operating philosophy, longtime

lieutenants Parker, 56, and Barrett, are throttling back on growth at the world's most admired and most profitable airline. While poised to swoon down if, say, United Airlines Inc. or Airways Group has to drop a certain market, they won't try to push weakened rivals out. After all, this is a management team that, despite its fun-loving image, got where it is today by tempering opportunism with fiscal conservatism. Indeed, in choosing Parker and Barrett to succeed Kelleher in July 2001, the board intended to signal "business as usual.... If it ain't broke, don't fix it," says director June M. Morris.

it sure ain't broke. Southwest is the only major carrier to remain profitable in every quarter since September 2001. While its six biggest rivals have shed 240 aircraft and laid off more than 70,000 workers, Southwest—which has never laid off a soul in its 31 years—has kept all of its 375 planes and 35,000 employees flying. While others battled with the need to cut wages, Southwest quietly

pepped up five crucial investments, ensuring long-term peace with those unions until 2005. It is in talks with flight attendants. Although its costs have dropped 25% since the attacks, Southwest is still worth more than all the other big airlines combined. Its balance sheet is the best in the business, with a debt-to-capital ratio of 1.8. And luckily for the company, it has \$1.8 billion in cash, with an additional \$575 million in unused credit lines.

Faced with such a strong competitor and in such a stormy economic climate, the big airlines are trying desperately to emulate Southwest's efficiencies. Some, including American Airlines and United, have comparable costs as much as 170% of Southwest's. US Airways and United are in bankruptcy, struggling to emerge as

low-cost contenders. Likewise, American and Delta Air Lines are looking for ways to slash billions in costs without destroying the route networks and service that command prices higher than Southwest's. Meanwhile, younger low-cost carriers that offer more amenities, such as JetBlue Airways and AirTran Holdings, are trying to grab a bigger chunk of the market.

Not since the downturn of the early 1980s has Southwest presented so clear a target for its rivals. "At some point, Southwest is going to be faced with much more aggressive and more cost-competitive rivals," predicts Robert L. Randall, retired CEO at American.

But Parker is determined that Southwest will continue to be, well, Southwest: a primarily short-haul airline that flies directly from city to city, with just one type of plane—the Boeing 737—and the lowest costs. For all of its enviable numbers, the nation's fourth-largest airline still accounts for only 10% of domestic traffic. That's a dominant slice of the overall 16% share held by discount

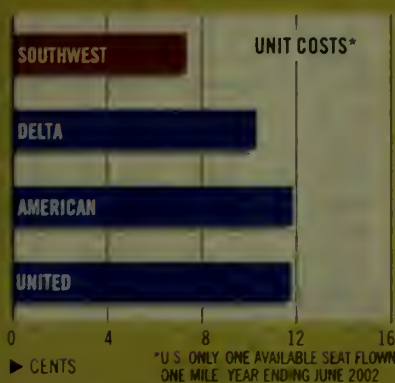
airlines. When the federal government offered cash grants to prop up the industry, Parker included this money in the company's profit-sharing formula for employees, even though he wasn't required to. And although Southwest has never offered the industry's highest base salaries, Parker is now able to offer raises and stock options at a time when other airlines talk of sacrifice. "A whole new generation

of Southwest employees hired in the last five or six years are now fundamentally understanding the advantages of the Southwest business model," says Brad Bartholomew, a Southwest pilot for 15 years. The pilots' new contract provides raises of at least 30% through 2006.

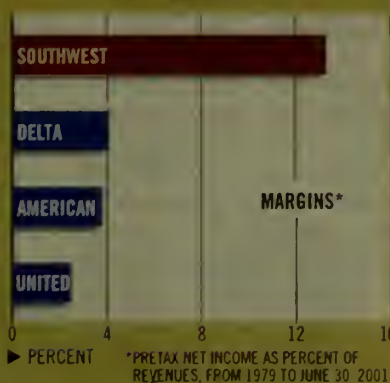
All things considered, the transition of power is proceeding smoothly, if slowly. Parker and Barrett admit they regularly seek Kelleher's counsel. And why not? The three go way back: Parker, a former Texas assistant attorney general, joined Kelleher's San Antonio law firm in 1979; Barrett was Kelleher's legal secretary. After fighting fierce battles to get Southwest aloft in 1971, Kelleher became permanent CEO in 1982. Parker joined him as general counsel four years later.

On the surface at least, the San Antonio-born Parker appears to be the polar opposite of Kelleher. His drawl and quiet diplomacy is a sharp contrast to Kelleher's manic energy and raucous laugh. "Because he looks like this pudgy, easygoing good ol' boy, he's very often underestimated," says a former exec. Parker's reserve belies a dry wit: At a graduation ceremony for new flight attendants last fall, Parker cracked that "when CEOs started going to jail, that's when Herb gave up the title." Style aside, the two have much in common: keen intelligence, a deep devotion to Southwest and its employees, and a taste for a good party. Colleagues even

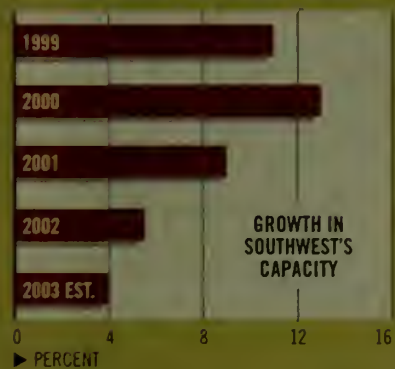
SOUTHWEST'S BIG COST ADVANTAGE...



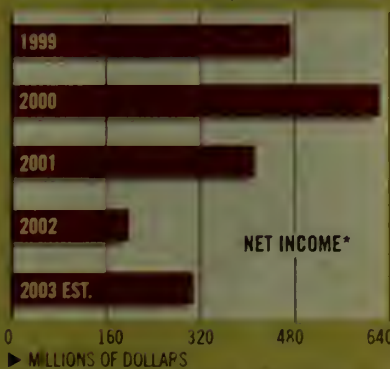
...HAS DELIVERED TOP MARGINS...



...BUT NOW EXPANSION IS SLOWING DOWN...



...AND PROFITS ARE GETTING SQUEEZED



Data: U.S. Dept. of Transportation; Management Consultants; Southwest Airlines Co.; UBS Warburg LLC

airlines, but it means Southwest still has plenty of opportunities to gain on its so-called hub-and-spoke rivals. Southwest aims to hike its capacity by at least 8% annually in the years ahead. "Obviously, we will not ignore any threat arising from our competitors' lowering their costs," says Parker. Nevertheless, he adds, "I don't see how they compete with the kind of point-to-point system we have at Southwest Airlines."

In some ways, the aftershocks of September 11 are making Southwest an even fiercer contender. Here's one way Parker and his crew have boosted loyalty and morale, long a key to Southwest's high productivity: When the fed-

PLEASE FASTEN YOUR SEATBELTS...

Southwest leads the industry, but faces stiff challenges:

► A narrower cost advantage as bigger rivals win labor concessions and tweak their hub systems

► Increasing pressure from startups such as JetBlue that offer more amenities—such as assigned seats

► Airport security hassles and higher ticket taxes will disproportionately hit Southwest's short-haul routes

The Corporation

presented Parker with a beer keg for his new office; it is regularly replenished for after-hours parties.

The pony-tailed, chain-smoking Barrett, who was promoted to executive vice-president for customers in 1990, oversees most of the day-to-day operations. Although more officers report directly to her than before, her focus on service and the company culture hasn't changed. Besides keeping tabs on such basics as on-time performance (Southwest now ranks a lowly No. 6), she's the "sentimental slob" who collects letters from passengers praising the airline's often extraordinary service. A reluctant public speaker who doesn't know how to use e-mail, she lets Parker take the lead with Wall Street and the media.

And her former boss? Well, by all accounts, the flamboyant, irreverent Kelleher—once the star of the company's TV commercials—is staying out of day-to-day affairs. He no longer leads the executive planning committee, the airline's major policy-setting body, which meets every three weeks. In fact, he's so invisible that some employees send cards wishing him well in retirement, unaware that "he's working his ass off," says Barrett. In fact, the 71-year-old chairman is leading the airline's lobbying efforts in Washington, where airport security, terrorism insurance, and other matters have suddenly become vital to the industry's survival. At the same time, he maintains control of schedule planning and aircraft acquisitions, the backbone of Southwest's strategy.

The trio running Southwest may be cautious about the future, but they're not complacent. Southwest is poised to accelerate its modest growth plans if the right opportunities come along. "A large, single-market opportunity has not fallen in their laps yet, but wait. They're certainly ready to exploit it," says analyst Samuel Buttrick of UBS Warburg. For instance, the company vastly expanded its presence at Chicago Midway Airport in 1991 when Midway Airlines

Corp. ceased operations there, and it moved into Baltimore in 1993 and Raleigh-Durham in 1999 when US Airways and American scaled back in those cities. Now, it's the top operator at Chicago's Midway and in Baltimore.

Parker has his own worries. Despite Southwest's relatively good health, it is still suffering from a weak economy, fears of war and terrorism, and penny-pinching by business travelers. The company's net profit last year fell 52%, to \$198 million, excluding special items, on flat revenues of \$5.5 billion. Of course, that looks fabulous next to the combined losses of the major carriers—more than \$13 billion in the past two years. Southwest's capacity grew by only 5.5% last year, its lowest rate since 1973.

Traffic grew a weak 2%, hurt in part by airport security hassles. That compares with a 6.2% drop for United, and a 1% drop at American. Parker predicts a "gradual" recovery for his airline and the industry. As a result, the company says it will add only 4% to its capacity this year and no new cities to the routes it already serves.

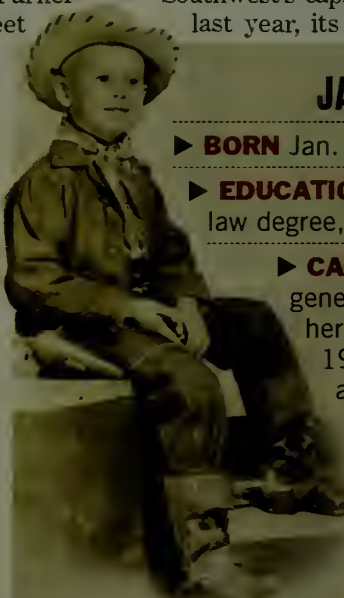
As for the competition, Parker Kelleher, like many airline observers, believes the big carriers won't be able to reinvent themselves radically. There may be fewer of them, and they may operate with fewer hubs. Their costs will be lower, but not as low as Southwest's. And they'll continue to cater to higher-paying business passengers with broad networks, first-class service,

airport clubs. "They'll narrow the [cost] gap substantially, but not enough to keep Southwest from continuing to eat market share," agrees Michael Roemer of Unisys R2A Transportation Management Consultants.

Of course, Parker also has to keep an eye on the low-cost upstarts. They are growing fast and are likely to target markets of the same dense markets that Southwest would like for its JetBlue, in particular, is attracting loyal customers with such amenities as televisions in the seatbacks of its 37 airplanes and assigned seating, which Southwest flights do not offer. But, so far, Parker isn't worried: "None of those 'Southwest-with-improvements' have shown they can produce an economically viable business model over a long time," he says. Only the 10 years old, nonunion JetBlue enjoys unusually low maintenance, wage, and benefit costs, which are bound to rise in years ahead.

When pressed to describe his hopes for Southwest, Parker tells a story. Shortly after his promotion, he sat next to a lawyer from American on a Southwest flight. When the man found out who Parker was, he admonished him: "You've got a damn good airline here. Just don't f--- it up." Says Parker, "that's kind of my goal."

By Wendy Zellner
Dallas, with Michael Arndt in Chicago



JAMES F. PARKER

► **BORN** Jan. 1, 1947, San Antonio

► **EDUCATION** BA, Univ. of Texas, 1969; law degree, Univ. of Texas, 1971

► **CAREER** Left the Texas attorney general's office to join Herb Kelleher's San Antonio law firm in 1979; became Southwest general counsel, 1986; CEO and vice-chairman, June, 2001

► **OFFICE-WARMING GIFT**
A beer keg from co-workers

► **ON FOLLOWING KELLEHER** "There are two traps you can fall into. One

is to have an ego-driven desire to leave your mark—and to try and change things. The other is to be too passive—and fail to recognize the need for change."

► **FAMILY** Married to Pat for 31 years; a son, James, 27, and a daughter, Jennifer, 22

COLLEEN C. BARRETT

► **BORN** Sept. 14, 1944, Bellows Falls, Vt.

► **EDUCATION** Associate's degree in business from Becker Junior College, Worcester, Mass., 1964

► **CAREER** Hired by Kelleher as legal secretary, 1967; became Southwest's corporate secretary in 1978, vice-president of administration in 1986, and executive vice-president, customers in 1990; promoted to president and chief operating officer in June, 2001

► **LEAST FAVORITE QUESTION** How did she break the glass ceiling? "There is no accomplishment here. There wasn't any glass ceiling to break."

► **FAMILY** Divorced; son, Patrick, 35



EDITED BY CATHERINE ARNST



Y NASA MAXING HORIC

SPACE SHUTTLES OF THE future may blast off with a new type of rocket fuel that is safer, more efficient, environmentally friendly—and a lot like candle wax. Current rocket fuel is not only expensive but also hazardous to transport, and rockets must be fueled at a launch facility. The new paraffin-based fuel is more stable and can be trucked to the launch site. In addition, the combustion of paraffin fuel produces only carbon dioxide and water, whereas conventional rocket fuel produces a variety of toxic gases, including hydrogen chloride. The paraffin fuel is the result of a two-year collaboration between scientists at Stanford University and the NASA Ames Research Center at Moffett Field, Calif., where the space agency is testing the fuel. Stanford professor John J. Cantwell says the paraffin fuel may permit NASA to develop rockets that could be shut down and restarted, whereas current rockets cannot be shut off after ignition. One design concept being considered is a new hybrid booster rocket that is able to "go back to the launch site" for refueling, he says. "This new fuel could significantly impact the future of space transportation."

AN OUT-OF-BODY TREATMENT FOR LIVER CANCER

MOST OF THE IMPROVEMENTS in cancer treatment in recent years have involved novel drug therapies. But Italian doctors are showing that surgery can play a role that is just as revolutionary. A team of 50 physicians and scientists at San Matteo Hospital in Pavia removed a man's cancerous liver and whisked it to a nearby nuclear facility, where they blasted it with

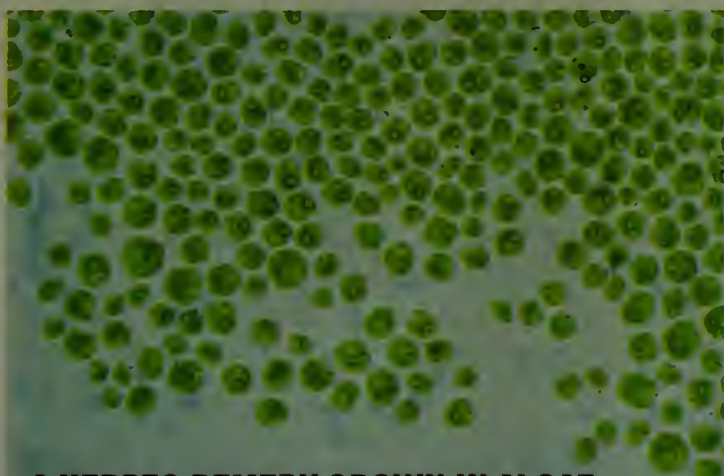
radiation for 11 minutes. Less than 35 minutes after the organ was removed, the doctors reinserted it, and the patient was on his way to recovery.

The 49-year-old Roman patient, Pasquale Toso, had been given a prognosis of only a month to live after colon cancer spread to his liver. The liver was riddled with more than 14 tumors that proved resistant to chemotherapy. A year after the December, 2001, procedure, Aris Zonta, a professor at the University of Pavia, says Toso's liver

appears to have healed.

Zonta spent 15 years developing his technique. By removing the liver, the doctors were able to deliver a much higher and uniform dose of radiation than if the organ had remained in the body. There are now six other liver-cancer patients awaiting approval to undergo the surgery. Although it's still too early to judge the long-term success of the operation, Zonta says that in time, it could be applied to other transplantable organs, such as the lungs, pancreas, and kidneys.

Christina W. Passariello



A HERPES REMEDY GROWN IN ALGAE

"POND SCUM" MAY SOON CONJURE UP SOMETHING BESIDES an insult. Researchers have found a way to use algae commonly found on stagnant water to grow an antibody that attacks the herpes simplex virus. If the technique pans out, it could lead to a cheap, fast way to produce any number of life-saving drugs on a large scale.

Antibodies—bits of protein produced by immune-system cells—have been engineered by biotech companies to treat a range of diseases. The breakthrough cancer drugs Herceptin and Rituxan are both antibodies. But the current manufacturing techniques—multistep fermentation processes using mammalian cells—are extremely complex and expensive, limiting the availability of some of these drugs.

Scientists at the Scripps Research Institute in La Jolla, Calif., say that the single-cell green algae they engineered to produce their anti-herpes protein might get around these manufacturing issues. As reported in the Jan. 8 issue of the *Proceedings of the National Academy of Sciences*, a gene that is responsible for producing the antibody is inserted into the alga genome, and its product is then purified out. Scripps scientist Stephen Mayfield says the process is much cheaper and faster than current methods.

DO YOUR OWN BLOOD WORK, RIGHT AT HOME

IT'S NO FUN VISITING A clinic or hospital every time you need a blood test. But millions of people suffering from cancer and other debilitating diseases depend on such routine tests to keep track of their condition. To make their lives easier, NEC, Motorola, and other chipmakers are developing biochips that will enable patients to conduct their own blood test in a few minutes without leaving home.

The latest announcement comes from NEC researchers, who have developed an analysis system comprising two devices, each the size of a stick of chewing gum. One part filters blood to separate out plasma; the other sorts large molecules from smaller ones in the plasma by means of microscopic pillars etched on the surface of silicon.

For now, NEC is testing the system to identify DNA. Next, the system will begin sorting blood proteins to check for signs of diabetes, high cholesterol, and cancer. NEC says its biochip will give a reading in several minutes, at a cost of about \$20 per chip.

Irene Kunii

BIOTECHNOLOGY

MEDICINE'S WILD KINGDOM

Potent chemicals derived from exotic animals are yielding a range of treatments

One creature you don't want to stumble upon in a dark forest is a hungry vampire bat. The three-inch-long, pointy-eared night stalker has an anti-clotting substance in its saliva that allows it to dine on an unending flow of its victim's blood. There is, however, one group of people that may come to see vampire bats as lifesavers. They're stroke patients who desperately need improved clotbusting drugs that prevent brain damage and paralysis by restoring blood flow to stroke-ravaged tissues.

That's the idea behind a new drug that 15 U.S. hospitals will soon begin testing. It's a synthetic copy of an enzyme bats secrete when they salivate over freshly bitten prey. Stroke experts are already buzzing because early studies in mice suggest patients may be able to safely receive the faux bat spit up to nine hours after they've had a stroke. The only clotbusting drug now on the market must be given within three hours. "This could be a very important advance," says Dr. Anthony Furlan, section head of stroke and neurologic intensive care at the Cleveland Clinic Foundation, one of the test sites.

Bats aren't the only scary animals that may someday contribute to the world's expanding medicine cabinet. Scientists are studying everything from Gila monsters to scorpions to copperhead snakes. The toxins these creatures



VAMPIRE BAT

WEAPON Salivary substance that prevents prey's blood from clotting

PROSPECT Busting up blood clots in stroke patients

use to kill their prey or ward off foes—or at least traumatize unsuspecting hikers—hold seemingly boundless potential to treat human diseases ranging from diabetes to brain cancer. Refined through millions of years of evolution, the substances found in animal saliva, venom, skin, and some internal organs home in on targets such as nerve cells better than most chemical combinations scientists concoct. And often they circulate in the body for hours on end.

Still, turning Mother Nature's toxins into lifesaving drugs can be harder than killing a python with a pebble. First, researchers must isolate, analyze, and synthesize specific compounds in such a way that they can be tolerated by humans and mass-produced. The risk of failure is so high that many pharmaceutical companies shun poison-derived experimental drugs until they're well past the development stage. That leaves scientists dependent upon scarce venture capital and public funding.

Scientists are also racing against a biological clock. Species identified to date may represent just one-tenth of the biological diversity on earth. And potentially therapeutic creatures are vanishing at unprecedented rates. Although the vampire bat is not endangered, 13 other bat species are. "The

natural world is the largest pharmaceutical factory we have," says Thomas Lovejoy, president of the H. John H. III Center for Science, Economic and the Environment in Washington, D.C. "A lot of potential benefit is being lost."

Witness the wonders of vampire spit. German biotech company Pains developed the drug, a genetically engineered copy of an enzyme in the bat saliva, which it licensed from Schering. The substance zooms straight to a blood clot and breaks it down. Early studies have shown that the bat spit stays in the body longer than today's clotbusters do, and it seems to do a better job targeting just the clot and nothing else, which may cut the risk of hemorrhage.

Drugs like this can earn attractive returns. An anticoagulant derived from leech saliva pulled in an estimated million last year for The Medicines of Parsippany, N.J. And Capoten, a hypertension drug derived from the venom of the South American viper, drew more than \$1 billion in annual sales for B

GIANT SCORPION

WEAPON Protein in its venom that paralyzes its prey

PROSPECT As a smart bomb that can seek out brain tumors



GILA MONSTER

WEAPON Salivary hormone released when the lizard bites

PROSPECT Regulating insulin production in diabetes patients



Myers Squibb, before the compound got generic in the mid-1990s.

Many animal poisons have the ability to hit specific bull's-eyes in the body. The cone snail, for example, injects its prey with a poison that paralyzes nerve cells. And the tiny Ecuadorian poison-dart frog secretes a skin toxin that keeps predators at bay. Both substances block pain signals to the brain and have led to experimental pain medications that could be as potent as morphine but with no risk of addiction. For sheer horror, nothing matches the sting of the 8-inch giant yellow Israeliorpion. It packs neurotoxins that cause excruciating pain. Yet at least one of the hundreds of proteins involved in the process also has the ability to seek out and bind to a receptor that is abnormally expressed on the surface of cancer cells—but not on normal cells.

Last year, two cancer centers began testing a copy of the protein that was developed at TransMolecular Inc. in Birmingham, Ala. The researchers altered the synthesized protein with a radioactive isotope and injected it into the brains of clinical-trial patients suffering from a cancer called glioma. In the brain, they believe, the drug travels straight to tumors and kills them without damaging nearby healthy cells. "It's like a guided missile," says TransMolecular CEO Matthew A. Gonda.

Exotic animals—and their secretions—

don't necessarily have to be lethal to help humans. Next year, San Diego-based Amylin Pharmaceuticals Inc. hopes to seek Food & Drug Administration approval for a diabetes drug derived from a hormone that Gila monsters secrete while munching on mice, bird eggs, and other favorite foods. The substance mimics the human hormone that regulates insulin, which in turn controls blood sugar. But unlike the human molecule, which is quickly degraded by enzymes in the body, the



PUFFER FISH

WEAPON Poison found in its organs that causes paralysis

PROSPECT To ease the pain of heroin withdrawal and cancer

lizard version sticks around for hours. And it helps the body regenerate insulin-making cells. "This takes us to new levels of blood-sugar control," says Dr. John B. Buse, director of the diabetes care center at the University of North Carolina School of Medicine, Chapel Hill, where Amylin's drug has been tested.

Despite the promise of animal-based drugs, the path from the rain forest to the FDA is rough with pitfalls. For many companies, the biggest challenge has been figuring out how to develop and produce chemical copies of naturally occurring substances. "We don't want to be milking snakes," says Francis S. Markland, professor of biochemistry and molecular biology at the University of Southern California Keck School of Medicine, who has been developing a cancer drug based on the venom of the southern copperhead snake. With a shoestring budget from public grants, Markland managed to coax mammalian cells to make copies of the venom protein. But it will be at least a year before a drug is ready for human testing.

Emerging technologies should help speed the discovery and development of exotic drugs. Computerized screening systems, for example, allow researchers to test experimental compounds against thousands of potential disease targets

MEDICINAL LEECH

WEAPON Molecules in the saliva break up blood clots

PROSPECT Reduces risk of blood clotting in some surgeries

simultaneously. That's important because science has barely scratched the surface of nature's therapeutic potential. "There are 10 million organisms out there waging chemical warfare against each other," says Peter H. Raven, professor of botany at Washington University. "The abundance of possible drugs cannot even be imagined."

Problem is, many of those potential remedies are disappearing before they're even spotted. Half of the world's plants and animals live in tropical forests, and most of those species are still unknown, Raven says. At the current rate of forest destruction, two-thirds of land-dwelling plant and animal species will be extinct by the end of this century.

The urgency of preserving nature's bounty isn't lost on patients like Duane Rualo. The 24-year-old accounting student at California State University at Long Beach was diagnosed with glioma in late 2001 and told he probably would not live long enough to make it to his fall 2003 graduation. After surgery and seven shots of scorpion venom, his latest brain scan came up clear of cancer. His doctors can't say yet how important the scorpion has been to his recovery. But these days, Rualo pauses when he comes across a scorpion exhibit at a zoo. "I stop and think: 'Wow, they may have saved my life,'" he says. And who knows what other lifesaving drugs may be lurking beyond the scorpion's lair, the Gila monster's burrow, and the bat's cave?

By Arlene Weintraub in Los Angeles, with Kerry Capell in London and Michael Arndt in Chicago

POISON-DART FROG

WEAPON Poisonous skin secretion can paralyze or even kill predators

PROSPECT Pain management, without morphine's addiction risk



Three angry looking men approached
They were carrying clubs.
Their leader spoke

"Our tea time was at the office."





Well okay, if you're determined to go slogging through some jungle in a pith helmet, the new V8-powered GX is rugged enough to tackle the most inhospitable terrain. But we suspect most of you will appreciate the GX for what it really is: a luxury utility vehicle with all the amenities, to take you on a new kind of adventure. One that leads to that much-awaited retreat, where you'll encounter nothing more perilous than a sand trap.

LEXUS
Lexus: The Art of Movement

For more information, call 800 USA LEXUS 800 872 5398 or visit us at lexus.com.

THE TECH BUST

WAY DOWN— IN THE VALLEY

Commerce One is working to escape from the ranks of the tech zombies

On a chilly, overcast autumn afternoon, Mark B. Hoffman, CEO of software maker Commerce One Inc., is suffering through a quarterly conference call with stock analysts. The company has just reported a loss of \$46.9 million—nearly twice the size of its \$26.4 million in revenues. Sitting at a table at his suburban office in Pleasanton, Calif., he painstakingly details his recovery plan and waits for analysts to ask questions. And he waits. All he gets is awkward silence. “There may not be any,” he says, finally, shrugging his shoulders.

“Let’s move on,” says his treasurer, John P. Biestman.

“Short and sweet,” quips General Counsel Beth Frensilli.

Nothing sweet about it. Three years ago, at the height of the Net gold rush, dozens of analysts crowded into calls like this. Commerce One was one of the Net’s highest fliers, with a market cap of \$21.5 billion at its zenith. It was a leader in the burgeoning market for software to handle transactions between businesses over the Web. Its fast and furious pace left established rivals such as Oracle Corp. and Germany’s SAP in the dust.

Now, it’s as if a hurricane had ripped through Commerce One’s world. The company’s market cap has shriveled to a measly \$85 million. And, when fourth-quarter revenues come out on Jan. 30,

they’re expected to be just \$19 million, down from a peak of \$191 million in the boom times of 2000. CIBC World Markets forecasts the company will book \$98 million in revenues this year and rack up an \$85 million operating loss. Its stock trades at \$3 a share, down from a split-adjusted high of \$1,356, or \$271 non-split-adjusted, on Mar. 9, 2000.

Commerce One is emblematic of a lost generation of tech companies created in the past decade. They’re the Internet zombies—not quite dead, but with long-shot prospects of reviving. The unprecedented frenzy of cash, hype, and new technology produced nearly 6,000 tech startups. They were fueled with nearly \$100 billion in venture capital. Yet only a handful—including Amazon.com, eBay, and software maker BEA Systems—have emerged as big-time successes. And nearly 4,000 remain. While tech busts before left hundreds of companies in deep trouble, this one left thousands. Never have so many been eyeball to eyeball with Darwin.

Drive south from San Francisco on Route 101 into Silicon Valley, and you enter a world Hoffman is trying desperately to escape. More than 100,000 tech jobs have been lost here. Some buildings are so empty they’re called “see-throughs.” In Foster City, 20 miles south of San Francisco, two towers that once housed 1,000 employees of Web-search startup Inktomi Corp. have barely 100 souls rattling around, awaiting completion of the company’s sale to Yahoo! Inc.

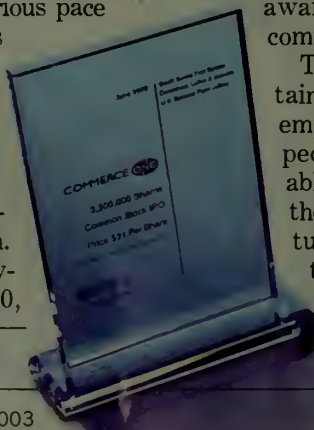
The zombies stir up a certain resentment. Sure, they employ tens of thousands of people. And they did valuable work in their time. As they rocketed to fleeting fortunes just three years ago, they produced loads of crucial technology to power the Internet and e-commerce. That was

then. Now, since many venture capital firms are still sinking money into the earlier bets, those dot-com-era outfits soak up capital and brainpower that could energize new companies—employing thousands and producing breakthrough technologies. Only 20% of money VCs sank into info-tech startups in the third quarter of 2002 went to early rounds, compared with 38% in more normal period of 1998, according to VentureOne Inc.

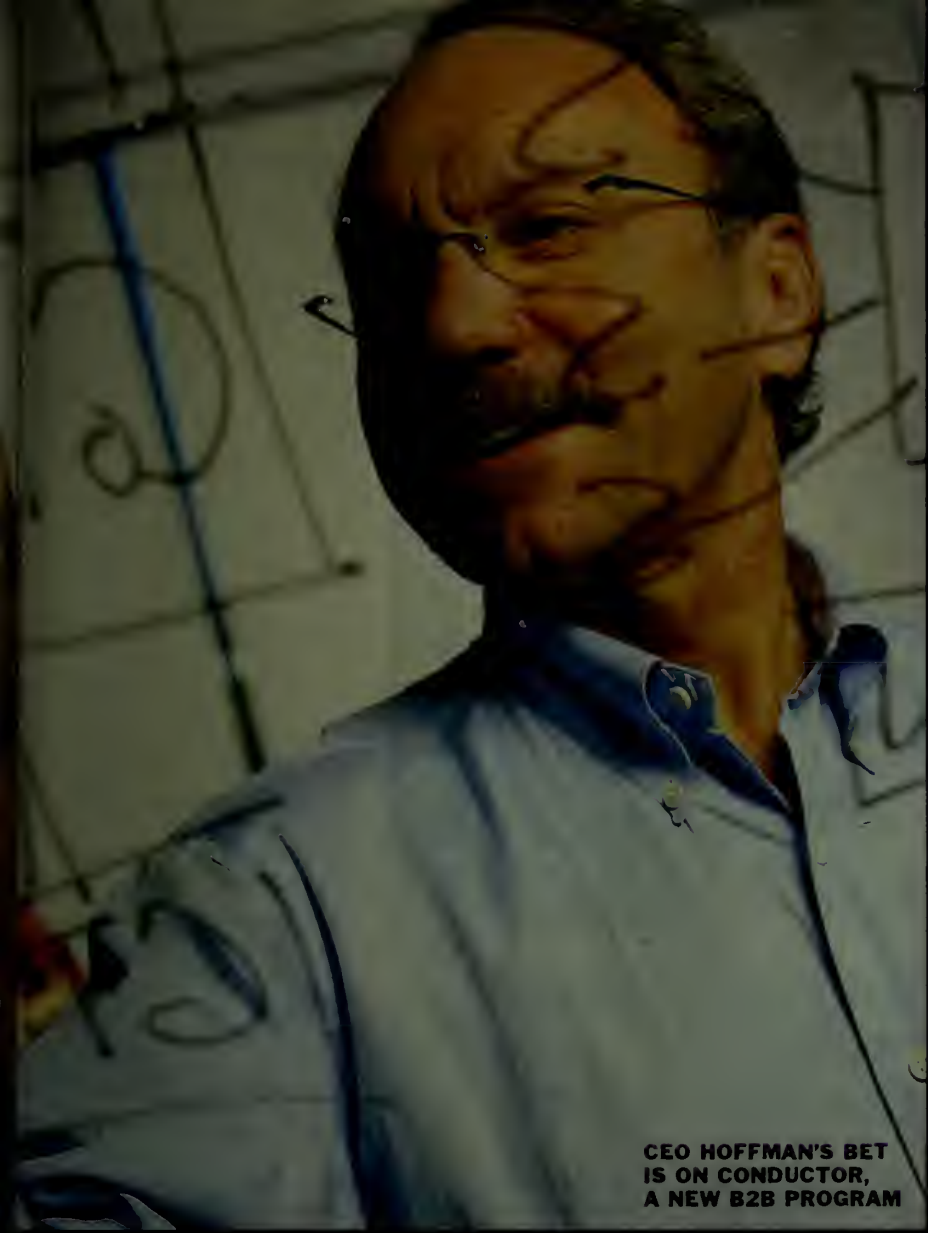
The Valley, say some, could get on with the tech recovery if most of these boom-time relics were quickly to go the way of the dodo bird. “Many of these companies should just liquidate or merge with somebody else,” says Vinod Khosla, general partner at VC firm Kleiner Perkins Caufield & Byers.

WHO WILL RISE AGAIN?

Fallen tech companies are struggling to reinvent themselves. Some examples:



GLORY DAYS: IPO memento



CEO HOFFMAN'S BET IS ON CONDUCTOR, A NEW B2B PROGRAM

A hardy few still have a shot at returning to glory. They can look for innovation to Oracle Corp., now a \$10 billion-a-year database-software giant, which nearly ran out of cash during the last downturn. These companies pioneered the Internet economy, and a handful of them remain leaders in key markets. Ariba Inc. is still a force in e-procurement, and Juniper Networks Inc. Internet telecom equipment. The ques-

tion is whether they can steer through this crisis and emerge strong again—and in the process help to shape tech's future. The answer for many should become clear in 2003, which looks like the make-or-break year for tech's zombies. With the industry still mired in its slump, they're burning through cash.

Hoffman desperately wants Commerce One to be among the survivors. "I would not count this company among the living

dead," he says. The 56-year-old veteran manager is betting the company on a software program called Conductor, just now being installed by early-adopter customers. It's a software hub, the first of its kind. The idea is that instead of setting up separate links with all their suppliers, companies will be able to plug all sorts of e-commerce applications straight into Conductor. Analysts say it's smart and will help corporations as they struggle with the cost and complexity of integrating software from different sources. Says Laurie Orlov, an analyst at Forrester Research: "The question is: How soon will companies buy?"

And will they buy from a struggling near-zombie? Unlike many others in the dot-com era, Commerce One produced real products for more than 500 customers. While many of those customers remain loyal, it's difficult for the company to land new ones. It's tarred with the brush of dot-com failure—and burdened with a painful legacy of boom-era mistakes. As a result, it probably has less than a 50-50 chance of turning around. "They have the challenge of overcoming the heritage as a failed e-commerce player that's desperately trying to retool at the last minute," says John Hagel III, a San Francisco tech consultant.

Now, as Hoffman prepares to launch Conductor, the company's finances are dire. Commerce One has only \$110 million in cash, and it's likely to burn \$20 million in the first quarter. His plan is to cut more costs, in part by sending engineering work to India. He's hoping that a tech recovery will lift the company and fuel sales of its new product.

He knows it's a long shot. Walk into Commerce One's headquarters, 15 miles east of San Francisco, and the first thing you see in the lobby is Hoffman's 17th century tapestry depicting the Battle of Arbella in 331 B.C., when Alexander the Great led his underdog Macedonians to victory over the far larger army of Darius of Syria. The message to Hoffman's forces is clear: With hard

LOGIES

ark delivers es to PCs all e world, but s down. It rkforce in its premium-strategy isn't p enough steam in this cheap-skate climate.

SONICblue

The maker of Rio music players and ReplayTV personal video recorders saw revenues rise 43% in the third quarter. Yet it has only \$12 million in cash, and \$28 million in debt. It's



desperately looking for an investor or buyer.

i2 TECHNOLOGIES

The supply-chain software specialist has pared its staff from 6,000 to 2,900. Putting half the engineers in India cut costs, but a new focus on less expensive business-analysis



programs hasn't caught on with corporations.

JUNIPER NETWORKS

A rival to Cisco in the high-end network-router business, Juniper's revenues dropped by more than 45%. Now, it is diversifying into faster-growing markets and has forged a key



alliance with industry heavyweight Siemens.

TRANSMETA

It has barely made a dent with its low-power chips for notebook PCs, where it faces Intel. Transmeta moved into chips for computer kiosks and entertainment systems.



It faces a tough market there, too.

work and a willingness to take chances, underdogs can overcome huge odds.

It will be a hard sell. Employees see the mistakes he has made, his delay in recognizing the crisis, and his failure to sell Commerce One when suitors were still around. Undermining Commerce One's prospects is a nagging doubt: Could it be that these startups, born and bred in the boom, were so warped by their upbringing—the easy money, the buggy products, the growth-at-any-cost mentality—that they're unfit to survive in normal times?

Hoffman insists this is not the case—that he can revive Commerce One, just as he summoned it to life the first time. After all, it wasn't so long ago that it was sitting on top of the Net world.

Hoffman's breakthrough came in Detroit, in October, 1999. After running database-software maker Sybase for 18 years, he had joined a tiny electronic-catalog company in 1996, renamed it Commerce One, and redirected it to the Internet. By the fall of 1999, Net startups and giant corporations alike had fixed on the idea that electronic exchanges could be created on the Net, connecting hundreds of buyers with thousands of suppliers in a new form of nearly friction-free capitalism. General Motors Corp. was eager to link suppliers in a vast electronic marketplace.

The car company had plenty of leverage and was ready to use it: It wanted stock in its software supplier and wouldn't pay a cent for the software. Oracle, which was also vying for the business, refused to play by those rules. "I was thinking these guys were bul-



MARKETING CHIEF NARRY SINGH SAYS COMMERCE ONE PRODUCTS NOW FETCH ONLY A FRACTION OF THE PRICES THEY USED TO COMMAND

“It's a different world. We have to get in and prove some value”

lies,” Hoffman recalls. Still, he agreed to their terms, suspecting that a GM deal would catapult Commerce One to the apex of the industry. And he was right.

Commerce One became a sensation. It signed up dozens of e-marketplaces, from aerospace to wood products. At the peak, customers even competed with one another to land it as their supplier. After landing just \$33.6 million in sales in 1999, it racked up \$401 million in 2000. But to keep up with growth,

Commerce One skimped on quality. That has haunted Hoffman ever since.

Like many of its star brethren, Commerce One did even have a testing program to make sure software really worked before it shipped to customers. Instead, a half-dozen engineers stood by at the end of each quarter, ready to fly anywhere to install programs so Commerce One could book last-minute sales. The result was glitchy software and resentful customers.

This led to tension between engineers and the high-flying sales team. But who could argue with the sales team's Midas touch? Glenn Anderson, a senior sales account manager, recalls a ski vacation at Lake Tahoe after Christmas, 2000. During a lunch break on the mountain, he wrapped eight deals worth \$7 million—and pocketed \$400,000 in commission. “By the end of lunch, I was giggling like a little kid,” he says.

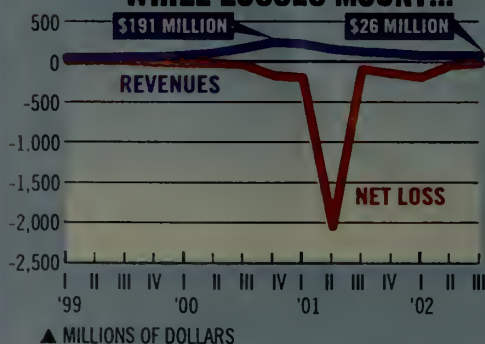
Hoffman had been around long enough to know that the boom would come to an end. Even when sales skyrocketed, he looked for a strong partner. The natural choice was SAP, the world leader in enterprise software. Commerce One

had humiliated SAP by beating it to business-to-business e-commerce. In July 2000, Hoffman and SAP co-CEO Hans-Joachim Plattner announced a bold partnership: SAP would invest \$500 million in Commerce One, and the two companies would integrate their offerings—giving Commerce One a dose of blue-chip letter and SAP a much-needed dollop of business pizzazz.

These days, Mark Hoffman looks back on the market crash and kicks himself

COMMERCE ONE'S GRIM SLIDE

REVENUES DECLINE STEADILY WHILE LOSSES MOUNT...



...THE STOCK PRICE CRASHES AS MANY INVESTORS BAIL OUT...



...AND, IN SPITE OF LAYOFFS, CASH IS DRIPPING FAST



Data: Commerce One Inc., Bloomberg Financial Markets

responding to it in slow motion. A fast response could well have prevented Commerce One from falling so far. But it turns out that Hoffman's company, like many of its rivals, was not only geared for a boom, its very technology was molded by the boom times. Hoffman remained optimistic in 2001, even as his industry cratered. Unlike his rival eBay, which slashed its staff and earnings early in the year, Hoffman maintained 3,000 employees through much of 2001, building a bright future that never arrived. "I wish I had cut sooner and harder," he says.

The paradox is that while Commerce One and many of its e-commerce brethren boasted of light-fast operations—living in the so-called Internet time—many ended up sluggishly to the crash. It blew their best chances to be acquired by a white knight early on. Hoffman, for example, waited until August, 2001, to explore a merger with SAP's Platform. It was too late. Commerce One's value was plummeting by the week. After the September attacks, which shrouded the industry in gloom, the Germans pulled the plug.

Ever since, Hoffman has worked to rescue Commerce One, remaking it as a re-bones startup. He has slashed staff three times and axed costs. He has even kicked board members, who used to enjoy hot gourmet meals, to slap together their own sandwiches of cold cuts.

While Hoffman pared spending, debates within the company raged over the post-boom strategy. The common approach is to seek small niches—shelter from the raging storm. Many of Commerce



FORMER PRESIDENT DENNIS JONES LIKENS THE DOT-COM BUST'S EFFECT ON THE COMPANY TO A CATEGORY 4 HURRICANE

“You feel totally helpless and overwhelmed. There was nothing we could do”

One's veteran marketers favored whittling down to a couple of existing software products. But Hoffman insisted that he wanted to “go after an industry and create something big”—like Conductor. Executives who differed with his approach, including product marketing chief Mike Micucci, jumped ship. Finally, in April, 2002, at a staff meeting, the CEO said: “Either you believe in the strategy, or leave the company.”

Still, Hoffman couldn't afford to put all of his resources behind the new strategy. To service customers, he had to keep most of his engineers adding improvements to older products. He started 2002 with only 10 engineers on Conductor, then gradually switched the other 400 over. That kept Commerce One's research and development costs high. And it means Conductor won't be ready until February—after 15 months of development.

The good news: Most customers appear to be sticking around. A dozen Commerce One clients interviewed by *BusinessWeek* are all keeping the company as a supplier. “Their responsiveness has very much improved,” says Peter Rohrbach, general manager of procurement at Siemens. And 11 of

them, including Eastman Chemical Co. and Siemens, are trying out test versions of Conductor. Yet even Rohrbach isn't buying yet. “The idea is good, but in the past, Internet technology promised a lot that didn't work out. We're going to see if it really works,” he says.

A problem for struggling tech companies such as Commerce One is that, in these rough times, customers can command bargain-basement prices. Narry Singh, senior vice-president for marketing, says Conductor will start at about \$300,000, a fraction of what it would have fetched during the boom. “It's a different world,” he says. “We have to get in and prove some value.”

Meanwhile, Hoffman keeps driving to pare back costs. Last September, while he was driving his Aston Martin through San Francisco, he admitted to himself that the company's spending was still way too high, even after repeated staff cuts. He dialed his CFO on the spot and ordered him to work up some business scenarios—including the worst case. Three weeks later, in October, he cut staff from 1,100 to 700.

While Hoffman struggles to reinvent his company, he must also battle burnout. After the October layoff, when 25 current and former marketing department employees gathered for a “pink slip” party at the nearby Hop Yard Alehouse & Grill, “there was a tiredness,” recalls one employee. “It was like we were saying to the people who had lost their jobs: ‘You're the lucky ones.’” Dennis H. Jones, a former president, likens his final days at Commerce One last spring to a hurricane he survived in Hawaii in 1992. His hotel was ripped out of the ground while guests huddled in the basement. “You feel totally helpless and overwhelmed,” he says.

Somehow, Hoffman slogs on. “Mark is an optimist,” says Alex S. Vieux, a member of Commerce One's board of directors. There's still hope among the industry's zombie companies. The question is whether they can overcome the heavy legacy that comes from being born and bred in the boom.

By Steve Hamm in San Francisco

BusinessWeek online

For the saga of the rise and fall, see www.businessweek.com

ER-SAY-DIE STARTUPS

6,000 tech companies funded since 1995. About 4,000 are still in business. Now the startups have met their fate.



Data: VentureOne Corp.

COMPENSATION

EXPLORING OPTIONS

Companies are under increasing pressure from investors to overhaul their pay packages, but how?

The problem with taking a bold step is that often you can't take just one. With institutional investors and policymakers urging them on, dozens of companies have decided to sign on to the reform movement sweeping boardrooms and begin deducting the cost of stock options from their reported earnings. But that is compelling companies to confront another, far more complex issue: If options aren't going to be free anymore, should companies now seize this opportunity to overhaul their entire incentive-pay system? Indeed, should they try to get more bang for their buck with other tools to motivate employees and make them think like shareholders? Or should they merely scale back their options grants to prune the cost?

The choices involve billions of dollars. American Express Co. alone issues options worth about \$200 million each year. And time is short: Companies with calendar fiscal years must finalize their plans by early March to include them in proxy statements for this year's annual meetings. Without shareholder approval, the new schemes may not be tax-deductible. "It is a hot issue," says Peter T. Chingos, head of the compensation practice at Mercer Human Resource Consulting LLC. "There isn't a boardroom that I walk into that is not contemplating some action."

How quickly Corporate America rebuilds trust among investors depends on the outcome. If company directors simply camouflage new ways to enrich executives, their actions might prolong the agony of the bear market. But if they choose pay packages that are clear-

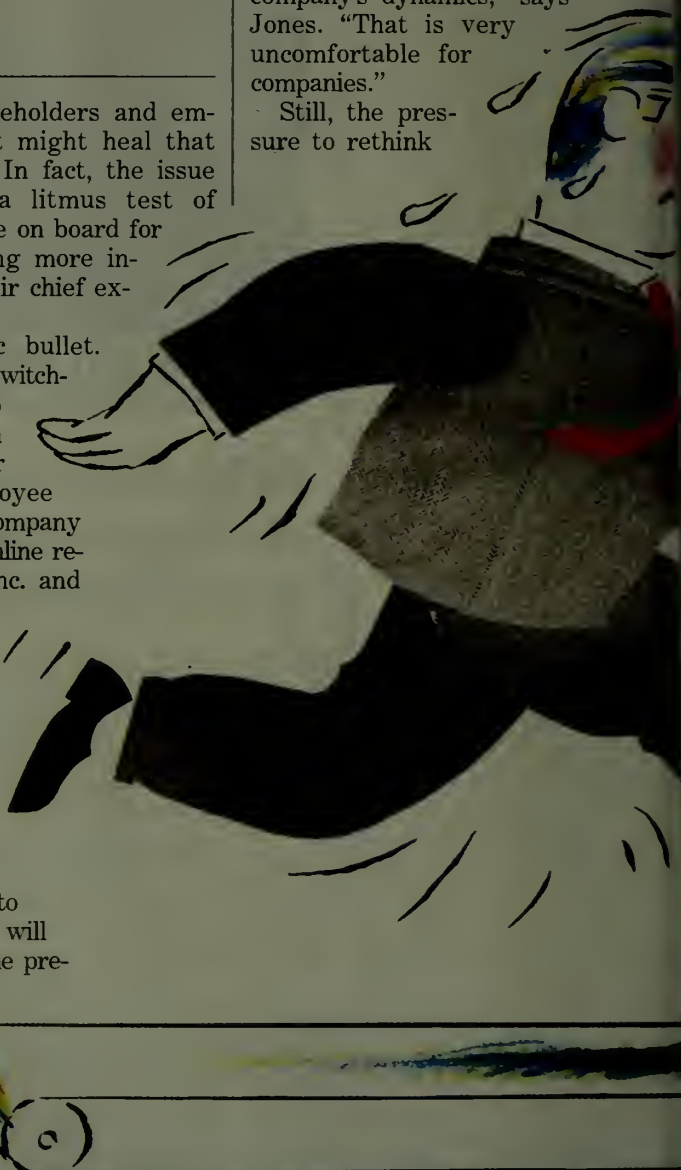
ly fair to both shareholders and employees, the market might heal that much more quickly. In fact, the issue is shaping up as a litmus test of whether directors are on board for reform and exercising more independence from their chief executives.

There's no magic bullet. Many companies are switching from options to restricted stock, which carries conditions for how long an employee must stay with the company and hold the stock. Online retailer Amazon.com Inc. and e-tailing-and-travel outfit USA Interactive are replacing most options with such stock. Insurer Chubb Corp. and pizza chain Papa John's International Inc., on the other hand, are converting some of their options to cash bonuses. Chubb will continue to grant some premium-priced options, which in the past haven't paid off unless the company's stock rose 25%. Papa John's is making its bonuses contingent on hitting goals such as operating-income growth.

What's striking is how few companies have announced changes so far. They worry that new plans will be difficult to sell to employees and shareholders. Other

companies had expected to unveil changes by now but found that craft new plans turned out to be far harder than they imagined. Blair Jones, a compensation expert at Sibson Consult says one client considered setting performance requirements tied to business units, only to realize that such a plan could make employees in high-performance units fight transfers. "We had 10 years following the pack [with options], now you have to think about your company's dynamics," says Jones. "That is very uncomfortable for companies."

Still, the pressure to rethink



CHANGE AGENTS

As companies move toward expensing stock options, some are finding better ways to reward their employees

Data: Company reports, BusinessWeek

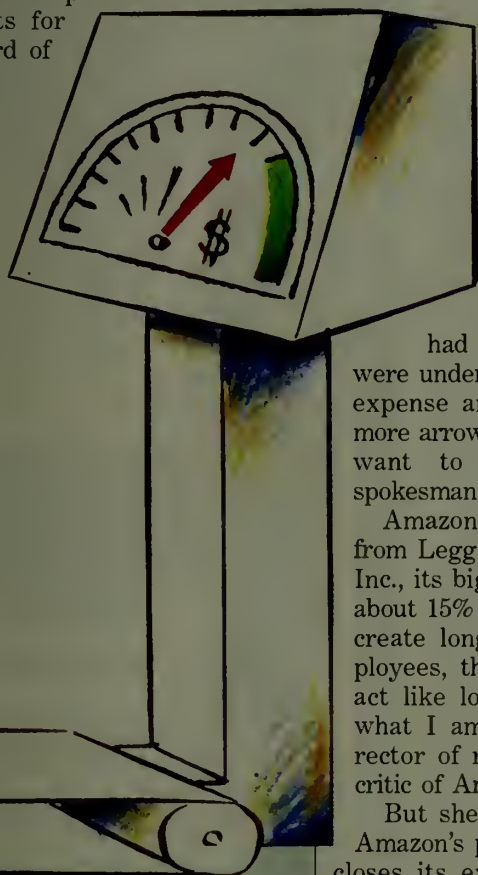
AMAZON.COM grants restricted shares in place of some options to keep dilution in check.

AMERICAN EXPRESS uses restricted stock instead of options to attract, retain, and reward employees.

GENDANT is replacing some options with restricted stock.

options is unrelenting. Many executives and employees hanker for something new because the bear market killed their options. Institutional investors want options curtailed lest they see another windfall for execs in the future. The Financial Accounting Standards Board is soliciting comment on whether all companies should have to expense options. The International Accounting Standards Board has posted an expensing standard for comment. So 176 companies are expensing options, or say they will—up from just 16 in June, according to Mercer.

Employees worry that they'll end up paying for these reforms. Their fears are justified. If expensing is mandated, options are likely to be slashed one-third, with the cuts falling heavily below the executive ranks, according to New York pay consultant Pearl River. Alfred P. West Jr., CEO at public-traded SEI Investments Co., says if the company must expense options, it will stop giving grants for at least a third of



awards cash bonuses instead of options, to avoid excessive dilution.

JOHN'S gives cash bonuses tied to operating income, earnings per share and individual performance, supplanting some options.

INTERACTIVE plans to get rid of its options within a year, replacing them with restricted stock instead.

the 572 employees who now get them.

Others won't try to pay less, but they will pay differently. At USA Interactive, employees will be getting what the company figures is equal value: one restricted share for every three options they used to get. The company will be nearly options-free within a year, says Chief Financial Officer Dara Khosrowshahi. "Options did encourage a bit of the get-rich-quick attitude [during] the bubble market," he says. American Express and Cendant Corp. also are replacing some of their options with restricted stock.

Companies like restricted shares. They're easier to account for than options and make employees feel like long-term shareholders, with their fortunes fluctuating alongside those of investors. Options, by comparison, can pay off big or expire worthless; holding them is more like buying a lottery ticket, engendering less long-term loyalty. If the stock falls, restricted shares encourage

employees to stay, while options lose whatever retention value they had.

Amazon has already switched from options to restricted shares as its main form of stock-based pay, but it won't say how many shares it will grant. In 2001, accounting rules forced Amazon to begin expensing options after it

had repriced them because they were underwater. "Once you decide to expense an equity award, you have more arrows in your quiver than if you want to avoid expensing," says spokesman Bill Curry.

Amazon is winning some plaudits from Legg Mason Funds Management Inc., its biggest outside investor with about 15% of its stock. "The more you create long-term holders out of employees, the more they are going to act like long-term owners, which is what I am," says Lisa Rapuano, director of research and an outspoken critic of Amazon's past options grants.

But she is reserving judgment on Amazon's plan until the company discloses its exact terms. She wants to know how many shares the company is giving out and under what restrictions. "We fought against the options excesses, and now we don't want to be getting restricted-stock excesses," says Rapuano. She and other investors will be watching what executives and directors do with the chance to change their pay plans. Given the revelations of bull-market greed, they had better not blow it.

By David Henry and Louis Lavelle
in New York

THE PAYMASTER'S TOOL KIT

Some ways to give managers incentives to perform other than traditional stock options



RESTRICTED SHARES

PROS These shares, which have holding restrictions, avoid excessive dilution and motivate

employees even when the stock falls.

CONS Unlike options, they still have cash value if their price declines, making them unpopular with some investors, who see them as rewarding managers even if they make no extra effort.



COLD HARD CASH

PROS No dilution; easy to understand.

CONS Does little to retain workers, and

doesn't link their interests with those of shareholders.



PREMIUM-PRICED OPTIONS

PROS With an exercise price well above the stock price, they ensure

that shareholders make money before employees get anything.

CONS If the stock languishes, those holding them are likely to bolt.



INDEXED OPTIONS

PROS With a fluctuating exercise price linked to a stock index, they reward employees

only when a company outperforms the market or its peers.

CONS Even if the stock tumbles, shareholders may lose money while option holders are able to cash in.



PERFORMANCE-BASED REWARDS

PROS By tying cash bonuses or stock grants to financial measures,

such as earnings-per-share growth, they link pay to results, unlike stock options.

CONS Could encourage managers to manipulate earnings and other measures to boost their pay.

Data: BusinessWeek

TODAY

**Shared vehicle system
for short-distance
transport**



**RAV4 EV
RESERVED
ZEV-NET**



**RAV4 EV
RESERVED
ZEV-NET**



**PRIUS
RESERVED
ZEV-NET**

TOMORROW

TOYOTA

**Environmental benefits
of long-term thinking**

At Toyota, we're constantly exploring new ways to help the environment — whether it's by lowering pollution levels, reducing fuel consumption or minimizing traffic congestion. That's why we're particularly proud to be a founding member of ZEV•NET™, an experimental transportation network that aims to accomplish all three.

Comprised of both zero and low emission vehicles, ZEV•NET combines the flexibility of driving a car with the environmental advantages of mass transit. Participants in Irvine, California share fifty environmentally advanced Toyotas for travel between nearby train stations and business parks. And by driving an electric RAV4 EV, zero emission e-com car or gas/electric Prius, they're definitely doing what's right for the planet.

Through community-based projects like ZEV•NET, we aren't just improving our cars. We're also improving the way they're used—in neighborhoods right where you live. Talk about bringing environmental benefits closer to home.

www.toyota.com/tomorrow

PRIUS

**RESERVED
ZEV•NET**

E-COM

VED

E-COM

**RESERVED
ZEV•NET**

COMMENTARY

By Emily Thornton

INVESTMENT BANKS HAVE A BAD CASE OF IMMUNITY

What do baseball and Wall Street have in common? Not much, apart from the sky-high salaries that their stars earn. But if the securities industry keeps hitting home runs in court, it could end up with just as much immunity from antitrust law as baseball famously enjoys. And that could really hurt investors.

In the past two months, appellate courts have thrown out two class actions filed by investors. One alleged that investment banks violated the Sherman Antitrust Act by conspiring to restrict investors from selling newly issued shares. The other charged that stock exchanges colluded to prevent certain shares from listing as options on multiple exchanges. The courts' rationale in both cases: Securities law trumps federal antitrust law because the Securities & Exchange

the IPOs. Banks deny the charges.

The investors, backed by a Justice brief, argue that the banks aren't exempt because price-fixing is prohibited under both industry rules and antitrust law. In support of the banks, the SEC counters that it is dealing with the alleged misconduct in a "variety of ways," according to a letter

an effective cop. Three years after the stock-market peak in 2000, the SEC is only now thinking of disciplining the analysts who hyped stocks to win banking deals. And, arguably, investment banks were punished in December for doling out tainted research only because New York Attorney General Eliot Spitzer shamed officials into striking a \$1.4 billion settlement.

The SEC has been slow to penalize firms engaged in practices akin to those alleged in the latest suit. In a brief submitted to Pauley in December, the SEC noted that it forced Credit Suisse First Boston to pay a \$100 million fine in January, 2002, for allegedly allocating hot IPOs to customers who agreed to steer part of their profits back to the bank by paying outsize commissions for transactions on other shares. But CSFB got off the hook without admitting that it did anything wrong, and investors didn't see a penny from the settlement. So far, the SEC hasn't acted against other banks.

Letting bankers get away with bending, if not violating, regulations contributed to the bubble market of the late 1990s. The way to prevent that from happening again is not to allow investment bankers to escape antitrust scrutiny. "I don't see how one of the biggest equity markets in the world can be exempt from antitrust law," says Nicholas Economides, a professor of economics at the Stern School of Business at New York University who specializes in financial antitrust issues.

Neither do investors. If bankers have schemed to manipulate stock prices, the culprits need to be outed and disciplined. The idea of insulating firms from antitrust law and leaving this to the SEC is not just a bad idea. It's no way to play ball.

Thornton covers investment banks



The courts keep throwing out antitrust suits, leaving supervision to the SEC—an ineffective cop

MARKET WATCH: IN A LAWSUIT, 10 BANKS ARE ACCUSED OF PRICE-FIXING

Commission has authority over anti-competitive behavior in both areas.

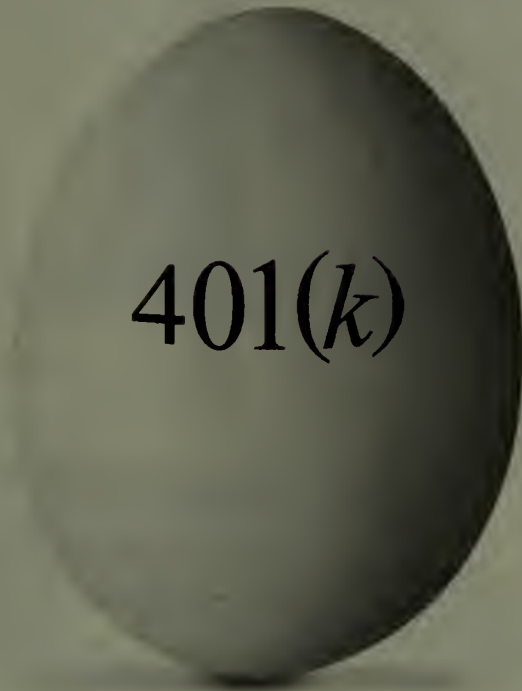
Now, in a third suit involving antitrust issues, some heavy hitters have again stepped up to the plate. The Justice Dept. has allied with investors in a face-off with investment banks and the SEC. The industry and its regulator are asking Federal Judge William H. Pauley III in Manhattan to dismiss the suit, arguing that they're immune from antitrust law in this case. The suit alleges that 10 top investment banks conspired to overcharge investors who bought stocks in initial public offerings of high-tech outfits such as Ariaba Inc. and Global Crossing, which aren't defendants. The suit also charges that banks later manipulated the market so that investors ended up paying inflated prices, even after

submitted to Pauley on Jan. 13.

The plaintiffs don't buy that line. "It's the job of the SEC to protect investors," argues Fred T. Isquith of Wolf Haldenstein Adler Freeman & Herz LLP, one of their lawyers. "The argument the SEC makes is troubling in that they are seeking to take away one of the tools that protect [investors] from anticompetitive conduct."

There's also a larger issue: The industry's growing list of exceptions from antitrust law makes sense only if the SEC is a watchdog with a bite as well as a bark. "The rationale [for immunity] is that the agency is a more efficient regulator [than the courts]," says Herbert J. Hovenkamp, professor of antitrust law at the University of Iowa.

But there's plenty of evidence the SEC needs serious outside help to be



401(k)

Would you like that rolled over easy?

You've worked hard to build your nest egg. Are you sure you want to leave it behind in your former employer's retirement plan? With the T. Rowe Price Rollover Advantage service, it's easy to take more control of your retirement savings.

Call one of our Rollover Specialists to open your account right over the phone. They can help you choose a T. Rowe Price fund, or you can pick from over 1,000 other funds*—all with no loads, no sales charges, and no commissions. They can even work with your former employer to help coordinate the rollover process. In fact, our Rollover Specialists handle just about all the IRA paperwork and will mail you the completed forms to sign.

It's never been easier to roll over your nest egg. To open your account, call us or visit our Web site and have your old 401(k) statement in hand.

TROWEPRICE.COM/ROLLOVERADVANTAGE

1-800-541-4041

T. Rowe Price 
INVEST WITH CONFIDENCE

*This service is offered by T. Rowe Price Investment Services, Inc., member NASD/SIPC. Please call to request a prospectus with more complete information, including fees, risks, and expenses; please read it carefully before investing.

ROA066385



INVESTING

BOND FUNDS: DON'T EXPECT A FULL-COURSE MEAL

The portions are smaller, but some still hold great potential. Here's our guide to the be

What are bond investors to do? After feasting on a three-year bull market, they may have to settle for smaller rations. And whether or not the U.S. economy is on the verge of a comeback and the Federal Reserve responds by nudging up interest rates is the least of the worries. The market's most serious threat comes from the Bush Administration's proposal to eliminate most of the taxes that individuals pay on dividends. That could make stocks serious competition for taxable government and corporate bonds—and even tax-free municipal bonds.

There's more. The looming war with Iraq may frighten off bond investors until the confrontation is resolved—and that could take months. The costs of a

war and a tax cut will exacerbate a ballooning federal budget deficit, which by some estimates could surpass \$300 billion by next year. Some analysts argue that the deficit is still too small to drive bond yields sharply higher, but others aren't so sure. What's more, the states are facing massive deficits of their own, and this may drive up muni yields as governors borrow to comply with balanced-budget laws.

The bottom line: Interest rates on fixed-income securities could climb sooner than economists and money managers anticipate—cutting bond prices faster than investors expect. Roger Early, chief investment officer for fixed income at Turner Investment Partners in Berwyn, Pa., which manages \$7 billion, foresees “a big bear market” for Treasuries, with yields on 10-year bonds soaring to 5% this year, up from now. If he's right, those bonds could more than 7% in price. “Treasuries probably had their day,” adds Early.

For those investors who have plus their whole bond portfolios into safe governments and munis, it's prob time to rethink their strategy. The edition of the *BusinessWeek* Mutual Fund Scoreboard is a good place to start. A researching data prepared by Standard & Poor's, we've identified an elite group of 102 bond funds whose managers produced the highest returns with the least amount of risk over the last 10 years. These funds get our A rating and also rate funds against their peers in each specific slice of the bond market.

The Bond Scoreboard, with full

THE BOND FUND A-LIST

The 102 fixed-income funds that earned
an A: our rating for superior returns relative to risk
over the past five years

	AVERAGE ANNUAL TOTAL RETURN (%)*	INVESTMENT CATEGORY	FUND	AVERAGE ANNUAL TOTAL RETURN (%)*	INVESTMENT CATEGORY
ANCE MULTI-MARKET STRATEGY A**	8.2	International Bond	LIBERTY N.Y. INTERMEDIATE MUNI. BOND Z**	5.6	Muni. New York Inter.
1. CENTURY ARIZ. MUNI. BOND INV.**	5.7	Muni. Single-State Inter.	MONTGOMERY TOTAL-RETURN BOND R**	7.7	Intermediate (General)
1. CENTURY CALIF. HIGH-YIELD MUNICIPAL	5.9	Muni. Calif. Long	J. P. MORGAN BOND INSTL.	7.3	Intermediate (General)
1. CENTURY FLA. MUNI. BOND INV.**	5.9	Muni. Single-State Long	MORGAN STANLEY MUNICIPAL INSTL.**	6.0	Muni. Short
1. CENTURY INFLATION-ADJUSTED BOND INV.**	7.9	Long Government	NORTHERN CA. TAX-EXEMPT**	5.9	Muni. Calif. Long
1. CENTURY TARGET MATURITY 2005 INV.	11.2	Interm. Government	NORTHERN INTERMEDIATE TAX-EXEMPT	6.4	Muni. National Inter.
1. CENTURY TARGET MATURITY 2010 INV.**	11.3	Interm. Government	NUVEEN N.Y. INSUREO MUNI. BOND R**	5.6	Muni. New York Inter.
1. CENTURY TARGET MATURITY 2015 INV.**	10.6	Long Government	NUVEEN N.Y. MUNICIPAL BOND R**	5.6	Muni. New York Inter.
1. CENTURY TARGET MATURITY 2020 INV.**	9.8	Long Government	PIMCO EMERGING MARKETS BOND A**	13.1	Emerging-Markets Bond
1. CENTURY TARGET MATURITY 2025 INV.**	12.3	Long Government	PIMCO LONG-TERM U.S. GOVERNMENT A**	9.1	Long Government
1. CENTURY TAX-FREE BOND INV.	5.8	Muni. National Inter.	PIMCO REAL RETURN BOND C	9.0	Interm. Government
INFLATION-INDEXED SECURITIES N**	9.4	Long Government	PIMCO TOTAL-RETURN III ADMIN	7.5	Intermediate (General)
INSTEIN SHORT-DURATION CALIF. MUNI.**	5.9	Muni. Calif. Inter.	PAYDEN CORE BOND R**	7.3	Intermediate (General)
INSTEIN SHORT-DURATION DIV. MUNI.**	6.4	Muni. Short	PAYDEN GLOBAL FIXED-INCOME R**	7.5	International Bond
INSTEIN SHORT-DURATION N.Y. MUNI.**	6.2	Muni. New York Inter.	T. ROWE PRICE MO. BOND	5.7	Muni. Single-State Inter.
AMOS CONVERTIBLE GROWTH & INCOME A	12.5	Convertibles	T. ROWE PRICE VA. BOND	5.7	Muni. Single-State Inter.
AMOS MARKET NEUTRAL A**	9.8	Convertibles	T. ROWE PRICE U.S. TREASURY INTERM.**	7.6	Interm. Government
ERT INCOME A	8.3	Long (General)	T. ROWE PRICE U.S. TREASURY LONG-TERM**	7.9	Long Government
ENTRY BOND**	7.4	Long (General)	SAFECO MUNICIPAL BOND INV.	5.7	Muni. National Long
GE & COX INCOME	7.7	Intermediate (General)	SALOMON BROTHERS NATL. TAX-FREE BOND A**	6.3	Muni. National Inter.
YFUS BASIC INTERMED. MUNI. BOND**	5.8	Muni. National Inter.	SCUDDER MASS. TAX-FREE S	5.9	Muni. Single-State Long
YFUS INVEST-GRADE INTERM.-TERM. INC. INV.	7.7	Intermediate (General)	SCUDDER U.S. BOND INOEX PREMIER**	8.4	Intermediate (General)
*GREEN OFFIT NATIONAL MUNICIPAL I**	7.1	Muni. National Long	SEI DAILY INTERM.-DURATION GOVT. A**	7.4	Interm. Government
*GREEN OFFIT NEW YORK MUNI. BOND I**	6.3	Muni. New York Inter.	STATE FARM MUNICIPAL BOND	5.8	Muni. National Inter.
ERATEO MORTGAGE INSTL. SERV.**	7.4	Interm. Government	STI CLASSIC FLA. TAX-EXEMPT BOND TR.**	5.8	Muni. Single-State Long
ERATED TOTAL-RETURN BOND INSTL.	7.3	Intermediate (General)	STI CLASSIC INV. GRADE TX.-EX. BOND FLEX.**	6.1	Muni. National Inter.
ERATED TOTAL-RETURN GOVT. BOND INSTL.**	7.9	Interm. Government	STRONG GOVERNMENT SECURITIES INV.	7.4	Interm. Government
ERATED U.S. GOVT. BOND**	8.0	Long Government	TCW GALILEO TOTAL-RETURN BOND I**	8.0	Interm. Government
ELITY CONVERTIBLE SECURITIES	9.2	Convertibles	TIAA-CREF BOND PLUS**	8.5	Intermediate (General)
ELITY INTERMEDIATE GOVT. INC.	7.3	Interm. Government	USAA TAX-EXEMPT NEW YORK BOND**	5.9	Muni. New York Long
ELITY SPARTAN ARIZ. MUNI. INC.**	5.7	Muni. Single-State Inter.	VANGUARD CALIF. INTERM.-TERM TX.-EX. INV.	5.9	Muni. Calif. Inter.
ELITY SPARTAN CALIF. MUNI. INC.	5.8	Muni. Calif. Long	VANGUARD CALIF. LONG-TERM TAX-EXEMPT INV.	6.1	Muni. Calif. Inter.
ELITY SPARTAN CONN. MUNI. INC.	5.9	Muni. Single-State Inter.	VANGUARD FLA. LONG-TERM TAX-EXEMPT	6.4	Muni. Single-State Inter.
ELITY SPARTAN GOVT. INCOME	7.5	Interm. Government	VANGUARD GNMA	7.3	Interm. Government
ELITY SPARTAN INTERM. MUNI. INC.	5.6	Muni. National Inter.	VANGUARD INSUREO LONG-TERM TAX-EXEMPT	6.1	Muni. National Inter.
ELITY SPARTAN INVT.-GRADE BOND	7.4	Intermediate (General)	VANGUARD INTERMEDIATE CORPORATE	7.3	Intermediate (General)
ELITY SPARTAN MASS. MUNI. INC.	5.8	Muni. Single-State Long	VANGUARD INTERMEDIATE-TERM BOND INOEX	7.8	Intermediate (General)
ELITY SPARTAN MUNICIPAL INC.	6.1	Muni. High Yield	VANGUARD INTERMEDIATE-TERM TREAS. INV.	8.4	Interm. Government
ELITY SPARTAN N.J. MUNI. INC.	5.8	Muni. Single-State Inter.	VANGUARD LONG-TERM BOND INOEX	8.2	Long (General)
ELITY SPARTAN N.Y. MUNI. INC.	6.1	Muni. New York Long	VANGUARD LONG-TERM TAX EXEMPT	6.0	Muni. National Long
ELITY SPARTAN OHIO MUNI. INC.	5.6	Muni. Single-State Long	VANGUARD LONG-TERM TREASURY INV.	8.5	Long Government
TH THIRO MUNI. BOND INV.**	5.7	Muni. National Inter.	VANGUARD N.J. LONG-TERM TAX-EXEMPT INV.	6.1	Muni. Single-State Inter.
ST INVESTORS INSUREO TAX EXEMPT II	7.2	Muni. National Long	VANGUARD N.Y. LONG-TERM TAX-EXEMPT INV.	6.1	Muni. New York Inter.
ST INVESTORS SRS. INS. INTERM. TX.-EX. A**	6.8	Muni. National Inter.	VANGUARD OHIO LONG-TERM TAX-EXEMPT	6.2	Muni. Single-State Inter.
EMONT BOND	7.8	Intermediate (General)	VANGUARD PENN. LONG-TERM TAX-EXEMPT INV.	6.1	Muni. Single-State Inter.
ENMEOE CORE FIXED INCOME**	7.5	Interm. Government	VAN KAMPEN CALIF. INSURED TAX-FREE A**	8.5	Muni. Calif. Inter.
O EMERGING COUNTRY OEBT III	9.2	Emerging-Markets Bond	VICTORY NATIONAL MUNICIPAL BOND A**	7.6	Muni. National Inter.
RBOR BOND INSTL.	8.0	Intermediate (General)	VICTORY OHIO MUNICIPAL BOND G**	5.6	Muni. Single-State Inter.
RRIS INSIGHT INTERM. TAX-EXEMPT BOND N**	5.9	Muni. National Inter.	WASATCH HOISINGTON U.S. TREASURY**	8.1	Long Government
RRIS INSIGHT TAX-EXEMPT BOND N**	6.3	Muni. National Inter.	WPG CORE BOND**	8.0	Interm. Government
BC INVESTOR FIXED INCOME**	8.0	Intermediate (General)			
GG MASON INSTL. WEST. ASST. MGMT. CORE I	7.5	Intermediate (General)			

*1998-2002, appreciation plus reinvestment of dividends and capital gains before taxes
**More fund data on BusinessWeek Online

Data: Standard & Poor's

Mutual Fund Scoreboard

tails of 202 taxable funds and 146 tax-exempt funds, starts on page 88. You'll find the complete list of 1,576 funds in our database at http://bwnt.businessweek.com/mutual_fund. The online version is updated monthly and has tools to screen funds by expenses, average maturity, or fund size.

For the third year in a row, corporate-bond funds beat stocks by a mile, returning a solid 7% in 2002, vs. a loss of 23% for the average U.S. stock fund, according to S&P. Out of about 900 funds that specialize in investment-grade bonds, only 18 posted losses. The corporate-bond managers who are A-rated have a lot in common: They stick to conservative strategies, keep a high-quality portfolio of diversified names, and rarely put too much money into a single issuer. Many are dogged in their credit research, relying on in-house talent to sniff out potential trouble.

One such group is Payden & Rygel, which manages \$47 billion in stock and bond funds. The Los Angeles firm has two funds on this year's A-list: Payden Core Bond and Payden Global Fixed Income. Manager Brian Matthews of the domestic fund says his research team—and a strict discipline that dictates when to sell a bond—got him out of hot water last year when WorldCom Inc., investment-grade issuers at the time, started imploding. Currently, his fund is invested in the debt of companies with stable credit, such as Target, Lockheed Martin, Wells Fargo, and Gannett. "We're very cautious about corporate profits and whether companies can keep up with debt already on the books," he says.

Still, some top-rated managers are willing to take a chance. High-yield bond funds rebounded in the fourth quarter—a sign of good things to come, say some money managers. Funds that invest in junk bonds returned 6.2% on average in that three-month period, erasing most of their losses earlier in the year. Money managers say that if the U.S. economy recovers and global

worries subside, the high-yield market could build on that recent momentum and enjoy a strong performance in the next few years. The heightened attention to a company's liquidity and creditworthiness is another big plus because

HOW THE GROUPS FARED

Long-term Treasuries and foreign bonds lead the way

CATEGORY	AVERAGE ANNUAL TOTAL RETURN (%)*		
	2002	2000-2002	1998-2002
LONG GOVERNMENT	14.8	11.7	7.3
INTERNATIONAL BOND	13.1	5.8	4.8
EMERGING MARKETS BOND	11.4	11.4	6.2
INTERMEDIATE GOVERNMENT	9.5	9.3	6.8
MUNI. NEW YORK LONG	9.2	8.5	5.3
MUNI. NEW YORK INTERMEDIATE	8.9	8.1	5.4
MUNI. NATIONAL LONG	8.9	8.1	4.9
MUNI. NATIONAL INTERMEDIATE	8.6	7.5	5.1
MUNI. CALIF. LONG	8.4	8.5	5.2
MUNI. SINGLE-STATE INTERMEDIATE	8.4	7.7	5.0
MUNI. SINGLE-STATE LONG	8.4	8.0	4.9
LONG (GENERAL)	8.2	8.7	6.0
INTERMEDIATE (GENERAL)	8.1	8.6	6.3
MUNI. CALIF. INTERMEDIATE	7.7	7.6	5.2
SHORT GOVERNMENT	6.5	7.4	6.0
MULTISECTOR	6.3	3.9	2.9
MUNI. HIGH YIELD	5.9	5.8	3.7
SHORT (GENERAL)	5.1	6.9	5.8
MUNI. SHORT	4.6	5.2	4.4
ULTRASHORT	2.7	4.7	4.7
HIGH YIELD	-1.3	-2.1	-0.4
CONVERTIBLES	-8.5	-4.6	3.8
ALL TAXABLES	6.4	6.4	5.3
ALL TAX FREE	8.3	7.7	5.0
ALL BOND	7.3	7.0	5.1

*Appreciation plus reinvestment of dividends and capital gains before taxes

Data: Standard & Poor's

it reduces risk, says Robert Auwaerter, manager of the A-rated billion Vanguard Intermediate Corporate Bond Fund, which buys investment-grade paper. "Default hasn't been all wrung out," he says. "But the level of scrutiny is at a time high. That will help the whole corporate-bond market."

Since investing in junk is more buying stocks than bonds, it's no surprise that most A-rated managers are away from relying too heavily on yield issues. Telecom bonds in particular bounced up a dramatic 25% on average since November, but Turner Investments' Early, for example, won't. He's leaning toward cyclical companies such as heavy-equipment maker Caterpillar & Stratton and propane-gas sellers like Regis Partners, that are likely to benefit in a recovery.

Like junk-bond funds, the performance of funds that invest in emerging markets can be extremely volatile from year to year. But if investors stay in for the long haul, the best fund to make the ride well worth the trouble. Many of them, such as the Fidelity Emerging Market Bond Fund and the GMO Emerging Country Debt Fund, don't make outside bets on any particular country. The GMO fund plunged in 1998 at the height of the Asian financial meltdown, but it has still managed double-digit returns since its inception. A-rated co-manager Robert Cooper doesn't visit the countries he invests in because he hates to travel. Instead, he crunches data to find

bonds that yield more than similar ones in the same country. "I buy and hope to pay," he says. He invests mostly in the world's largest issuers—Brazil, Mexico, and Russia—with a smattering of smaller countries such as the Dominican Republic.

Closer to home, managers have also been on a roll. Collective funds investing more than one-third posted an average gain of 9%—one of the best results of the sector. A low default rate, high credit quality (about half the bonds held in the funds are AAA-rated) and yields that are

THE LARGEST BOND FUNDS

Here's how *BusinessWeek* rates the big ones

FUND	ASSETS MILLIONS	AVG. ANNUAL 5-YR. RETURN (%)*	OVERALL RATING
VANGUARD GNMA	\$21.3	7.3	A
VANGUARD TOTAL BOND MARKET INDEX	16.2	7.1	B+
FRANKLIN CALIF. TAX-FREE INC. A	13.3	5.2	C
BOND FUND OF AMERICA A	12.4	5.4	C-
VANGUARD SHORT-TERM CORPORATE	8.5	6.2	B
FRANKLIN U.S. GOVT. SEC. A	7.7	6.8	C
VANGUARD INTERMEDIATE-TERM TAX-EXEMPT	7.2	5.4	B+
PIMCO TOTAL RETURN A	6.8	7.7	B
FRANKLIN FEDERAL TAX-FREE INCOME A	6.6	4.9	C-
FIDELITY GINNIE MAE	6.6	6.8	B+
FIDELITY INTERMEDIATE BOND	6.0	7.2	B+
VANGUARD HIGH-YIELD CORPORATE INV.	5.3	2.4	D
FIDELITY SHORT-TERM BOND	5.0	6.3	B
FIDELITY SPARTAN MUNI. INCOME	4.7	6.1	A
FRANKLIN N.Y. TAX-FREE INC. A	4.7	5.7	B

*1998-2002, appreciation plus reinvestment of dividends and capital gains before taxes

Data: Standard & Poor's

THE BEST FUND CLASS

We gave A's to these funds when we rated them against their peers

FUND	TOTAL RETURN*	FUND	TOTAL RETURN*
CONVERTIBLES			
LAMOS CONVERTIBLE GROWTH & INCOME A12.5%		MUNICIPAL NATL. INTERMEDIATE	
EMERGING-MARKETS BOND			
ICO EMERGING-MARKETS BOND A** 13.1		VICTORY NATIONAL MUNICIPAL BONO A** 7.6	
HIGH-YIELD		NORTHERN INTERMEDIATE TAX-EXEMPT 6.4	
BERGER BERMAN HIGH-INC. BONO INV.** 6.5		NARRIS INSIGHT TAX-EXEMPT BONO M** 6.3	
MITRUST SRS. STRATEGIC YIELD A** 4.4		SALOMON BROTHERS NATL. TAX-FREE BONO A** 6.3	
LUMBIA HIGH-YIELD Z 4.2		VANGUARD INSUREO LONG-TERM TAX-EXEMPT 6.1	
LONG SHORT-TERM HIGH-YIELD BOND INV.** 3.6		STI CLASSIC INV. GRADE TAX-EX. BONO FLEX.** 6.1	
MUS HIGH-YIELD 3.2		NARRIS INSIGHT INTERM. TAX-EXEMPT BONO M** 5.9	
INTERMEDIATE (GENERAL)			
LA-CREF BONO PLUS** 8.5		MUNICIPAL NATIONAL LONG	
MODER U.S. BONO INOEX PREMIER** 8.4		FIRST INVESTORS INSUREO TAX EXEMPT II 7.2	
MSBC INVESTOR FIXED INCOME 8.0		EVERGREEN OFFIT NATIONAL MUNICIPAL I** 7.1	
RBOR BONO INSTL. 8.0		VANGUARD LONG-TERM TAX EXEMPT 6.0	
EMONT BONO 7.8		SAFECO MUNICIPAL BOND INV. 5.7	
WARD INTERMEDIATE-TERM BONO INDEX 7.8		MUNICIPAL N.Y. INTERMEDIATE	
DGE & COX INCOME 7.7		EVERGREEN OFFIT NEW YORK MUNI. BONO I** 6.3	
KEYFUS INVST.-GRADE INTMEQ.-TERM INC. INV. 7.7		BERNSTEIN SHORT-DURATION N.Y. MUNI.** 6.2	
MONTGOMERY TOTAL-RETURN BONO R** 7.7		MUNICIPAL NEW YORK LONG	
MCO TOTAL-RETURN III ADMIN.** 7.5		FIDELITY SPARTAN N.Y. MUNI. INC. 6.1	
PG MASON INST. WESTERN ASST. MGMT. CORE I 7.5		MUNICIPAL SHORT	
FIDELITY SPARTAN INVESTMENT-GRADE BONO 7.4		BERNSTEIN SHORT-DURATION DIV. MUNI. 6.4	
BERATED TOTAL-RETURN BONO INSTL. 7.3		MUNICIPAL SINGLE-STATE INTERM.	
P. MORGAN BONO INSTL. 7.3		VANGUARD FLA. LONG-TERM TAX-EXEMPT 6.4	
INTERMEDIATE GOVERNMENT			
AMER. CENTURY TARGET MATURITY 2010 INV.** 11.3		VANGUARD OHIO LONG-TERM TAX-EXEMPT 6.2	
AMER. CENTURY TARGET MATURITY 2005 INV. 11.2		VANGUARD N.J. LONG-TERM TAX-EX. INV. 6.1	
MCO REAL RETURN BOND C 9.0		VANGUARD PENN. LONG-TERM TAX-EX. INV. 6.1	
VANGUARD INTERMEDIATE-TERM TREASURY INV. 8.4		FIDELITY SPARTAN CONN. MUNI. INC. 5.9	
W GALILEO TOTAL-RETURN BOND I** 8.0		FIDELITY SPARTAN N.J. MUNI. INC. 5.8	
PG CORE BONO 8.0		AMERICAN CENTURY ARIZ. MUNI. BONO INV.** 5.7	
BERATED TOTAL-RETURN GOVT. BOND INSTL. 7.9		FIDELITY SPARTAN ARIZ. MUNI. INC.** 5.7	
T. ROWE PRICE U.S. TREASURY INTERM.** 7.6		T. ROWE PRICE VA. TAX-FREE BONO 5.7	
LENMEDE CORE FIXED INCOME** 7.5		T. ROWE PRICE MD. TAX-FREE BOND 5.7	
INTERNATIONAL BOND			
ALLIANCE AMERICAS GOVERNMENT INCOME A 8.6		FIDELITY SPARTAN FLA. MUNI. INC. 5.6	
ALLIANCE MULTI-MARKET STRATEGY A** 8.2		VICTORY OHIO MUNICIPAL BONO G** 5.6	
AYDEN GLOBAL FIXED INCOME R** 7.5		DREYFUS PA. INTERM. MUNI. BOND** 5.5	
LONG (GENERAL)			
VANGUARD LONG-TERM BONO INOEX 8.2		FIDELITY SPARTAN PENN. MUNI. INC.** 5.5	
LONG GOVERNMENT			
AMER. CENTURY TARGET MATURITY 2025 INV.** 12.3		GLENMEDE N.J. MUNI.** 5.5	
MULTISECTOR			
OS PAGE STRATEGIC FIXED INCOME P** 7.0		T. ROWE PRICE N.J. TAX-FREE BONO** 5.5	
T. ROWE PRICE SPECTRUM INCOME 5.1		USAA TAX-FREE VIRGINIA BONO 5.5	
MUNICIPAL CALIF. INTERMEDIATE			
AN KAMPEN CALIF. INSURED TAX-FREE A** 8.5		MUNICIPAL SINGLE-STATE LONG	
BERNSTEIN SHORT-DURATION CALIF. MUNI.** 5.9		LORD ABBETT GA. TAX-FREE INCOME A** 6.1	
MUNICIPAL CALIF. LONG			
AMER. CENTURY CALIF. HIGH-YIELD MUNI.** 5.9		AMER. CENTURY FLA. MUNI. BONO INV.** 5.9	
NORTHERN CALIF. TAX-EXEMPT** 5.9		SCUOOR MASS. TAX-FREE S 5.9	
MUNICIPAL HIGH-YIELD			
FIDELITY SPARTAN MUNI. INC. 6.1		FIDELITY SPARTAN MASS. MUNI. INC. 5.8	
ULTRASHORT			
MORGAN STANLEY INSTL. LIMITED DURATION 6.1		STI CLASSIC FLA. TAX-EXEMPT BONO TR.** 5.8	

least comparable with or better than those of U.S. Treasuries helped boost performance, according to S&P analysts.

As state and local governments tackle their huge budget deficits over the next couple of years, it will be even more important for investors to stick with A-rated managers who did well in both the boom and the bust. One such is Paul A. Toft, manager of Victory Capital Management Inc.'s \$85 million Victory National Muni Fund since 1994. "There are those who try to make big interest-rate bets, or buy speculative credit quality and hope they hit a home run," says Toft, who has earned an annual 7.6% return over the last five years. "That's not what I do." One of his strategies is to buy debt in states such as Montana, Idaho, and Arizona where there's high demand for bonds from locals, but limited supply.

Like most other successful managers, Toft's aversion to risk earns him high grades. Some have conservatism built into their investing mandates. Several A-rated funds in American Century's lineup fit that bill, even though they racked up outsized returns, from 27% to 37%, last year. Five of the company's Target Maturity Series funds were among the top 10 performers among all bond funds. But the funds—which invest in zero-coupon U.S. Treasury securities and hold them until maturity—can have wild swings from year to year because the investments are very sensitive to interest-rate changes. "We've designed these for the buy-and-hold investor," says lead manager Jeremy Fletcher. Investors holding the fund to maturity should expect to earn on average 5% a year, he says.

John Brynjolfsson, who manages the \$6.4 billion PIMCO Real Return Bond fund, is in the same conservative camp. The bulk of the fund's assets are in TIPS, or Treasury Inflation-Protected Securities. The principal or par amount of the bond is indexed to inflation; as it rises, the coupon payments do, too, so investors can't lose purchasing power. His A-rated fund, which has earned 9% a year on average for the last five, appeals to investors "looking for something they can bank on," he says. "There are still land mines out there."

Land mines aren't what investors envision when they think of investing in bond funds. It's all the more reason to read our Scoreboard and survey the suddenly perilous lay of the land.

By Mara Der Hovanesian in New York

BusinessWeek online

For info on all 1,576 bond funds, go to http://bwnt.businessweek.com/mutual_fund

*1998-2002, appreciation plus reinvestment of dividends and capital gains before taxes

More fund data on BusinessWeek Online

Data: Standard & Poor's

BOND FUNDS

MUTUAL FUND SCOREBOARD

How to Use the Tables

BUSINESSWEEK RATING

Ratings measure risk-adjusted performance. This shows how well a fund performed relative to other funds and relative to the level of risk it took. Risk-adjusted performance is determined by subtracting a fund's risk-of-loss factor (see below) from its historic total return. Performance calculations are based on the five-year time period between Jan. 1, 1998, and Dec. 31, 2002. For BW ratings, funds are divided into taxable and tax-exempt funds. Funds are also rated against others in their category. Ratings are based on a normal statistical distribution within each group and awarded as follows:

A	SUPERIOR
B+	VERY GOOD
B	ABOVE AVERAGE
C	AVERAGE
C-	BELOW AVERAGE
D	POOR
F	VERY POOR

RISK

The risk-of-loss factor is the potential for losing money in a fund, calculated as follows: The monthly Treasury bill return is subtracted from the fund's total return for each of the 60 months in the rating period. When a fund has underperformed Treasury bills, the result is negative. The sum of these negative numbers is then divided by the number of months in the period. The result is a negative number, and the greater its magnitude, the higher the risk of loss.

PERFORMANCE COMPARISON

The tables provide performance data over three time periods. Here are equivalent total returns for the Lehman Brothers bond indexes during those periods:

	AGGREGATE	MUNI.
2002	10.3%	9.6%
3-year average (2000-2002)	10.1%	8.8%
5-year average (1998-2002)	7.5%	6.1%

FUND CATEGORIES

General bond funds are classified long-term (CL), intermediate-term (CI), short-term (CS), and ultra-short (UB); government, long (GL), intermediate (GI), and short (GS);

municipal, national long (ML), national intermediate (MI), single-state long (SL), single-state intermediate (SI), Calif. long (MC), Calif. intermediate (MF), New York long (MY), New York intermediate (MN), short-term (MS) and high-yield (MH); specialized funds, convertible (CV), high-yield (HY), international (IB), emerging markets (EB), and multisector (MU).

SALES CHARGE

The cost of buying a fund, commonly called the 'load.' Many funds take loads out of initial investments, and for ratings purposes, performance is reduced by these charges. Loads on withdrawals can take two forms. Deferred charges decrease over time. Redemption fees are imposed whenever investors sell shares. Funds with none of these charges are called 'no-load.'

EXPENSE RATIO

Fund expenses for 2002 as a percentage of average net assets. The measures show how much shareholders pay for fund management. Footnotes indicate 12(b)-1 plans, which allocate shareholder money for marketing

costs. The average expense is 0.97% for taxable funds, 0.82% for tax-free funds.

TOTAL RETURN

A fund's net gain to investor including reinvestment of dividends and capital gains at month-end prices.

YIELD

Income distributions during 2002 expressed as a percent net asset value, adjusted for capital gains.

MATURITY

The average maturity of the securities in a fund's portfolio, weighted by market value.

HISTORY

A fund's relative performance during the five 12-month periods from Jan. 1, 1998, to Dec. 31, 2002. The numbers designate which quintile the fund was in during the period: **1** for the top quintile; **2** for the second quintile; **3** for the third quintile; **4** for the fourth quintile and **5** for the bottom quintile. No number indicates no data for that period.

TELEPHONE NUMBERS

See index on page 94.

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$MIL.	% CHG. 2001-2002	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%)			PORTFOLIO YIELD MATURITY (%) (YEARS)		HISTORICAL RESULTS ALL FUNDS
								1 YR.	3 YR.	5 YR.			
TAXABLE													
AIM HIGH YIELD A	F	HY	F	460.0	-29	4.75**	1.07†	-10.4	-13	-8.6	11.7	6.8	5159
AIM INTERMEDIATE GOVERNMENT B	D	GI	C	705.6	83	No load**	1.65†	9.2	7.7	5.5	3.7	6.1	2343
AIM LIMITED MATURITY TREASURY A	C-	GS	C	724.2	19	1.00	0.48†	4.5	6.4	5.6	2.4	1.5	3141
ALLIANCE AMERICAS GOVERNMENT INC. A (a)	A	IB	B+	942.6	-6	4.25**	1.53†	10.7	9.6	8.6	8.7	14.6	2115
ALLIANCE CORPORATE BOND A	F	CL	D	500.9	-12	4.25**	1.12†	-1.9	4.8	3.2	7.7	18.9	5141
ALLIANCE U.S. GOVERNMENT A	D	GL	C-	887.5	-1	4.25**	1.09†	9.2	8.9	6.2	4.8	12.5	1413
AMERICAN CENTURY GINNIE MAE INV.	B	GI	B+	2056.7	23	No load	0.59	8.4	8.8	6.7	5.4	23.4	2232
AMERICAN CENTURY GOVERNMENT BOND INV. (b)	B+	GI	B+	581.8	53	No load	0.51	10.6	10.0	7.2	3.2	6.5	1312
AMERICAN CENTURY SHORT-TERM GOVT. INV.	C	GS	C	939.2	15	No load	0.59	5.2	6.7	5.6	3.3	7.6	3142
AMERICAN CENTURY TARGET MATURITY 2005 INV.	A	GI	A	420.0	22	No load	0.59	14.6	14.2	11.2	4.0	5.7	1211
AMERICAN HIGH-INCOME TR. A	B	HY	D	3764.7	14	3.75**	0.83†	-3.6	0.1	1.8	9.7	5.7	5152
ARMADA BOND I	B	CL	B+	668.4	-18	No load	0.71†	10.1	9.8	7.0	4.8	5.9	1312
ATLAS ASSETS U.S. GOVT. & MORT. SEC. A	C	GI	B	488.5	58	No load	1.03†	8.7	8.8	6.5	4.9	27.4	3232
AXP BOND A	F	CI	C-	2406.1	-1	4.75	0.95†	5.6	6.7	5.0	5.0	10.8	4242
AXP EXTRA INCOME A	C-	HY	F	1484.0	-17	4.75	1.03†	-7.0	-4.4	-2.4	9.6	6.5	5153
AXP FEDERAL INCOME A	F	GS	C-	1600.8	32	4.75	0.95†	6.0	6.2	5.3	3.4	7.2	2252
AXP SELECTIVE A	D	CL	C-	992.7	-10	4.75	0.98†	2.8	6.5	5.3	4.6	15.3	1332
BERNSTEIN INTERM. DURATION	C-	CI	C	2155.7	-1	No load	0.61	7.2	7.6	5.8	4.4	7.1	4242
BOND FUND OF AMERICA A	D	CI	C-	12351.9	9	3.75**	0.71†	6.1	6.5	5.4	6.3	6.2	4152
CALAMOS CONVERTIBLE A	B+	CV	B	451.5	106	4.75**	1.20†	-4.6	-0.7	8.0	1.7	4.9	1145
CALAMOS CONVERTIBLE GROWTH & INC. A	A	CV	A	435.2	185	4.75**	1.30†	-4.1	0.0	12.5	1.8	14.6	1145
CALVERT INCOME A	B+	CL	A	1491.3	42	3.75**	1.11†	5.0	7.9	8.3	6.1	10.3	1151
CAPITAL WORLD BOND A	C	IB	C-	543.5	39	3.75**	1.08†	16.5	6.3	5.1	2.3	7.5	1455
COLUMBIA FIXED INCOME SEC. Z (c)	B	CI	B	535.1	13	No load	0.66	7.6	9.0	6.5	5.1	4.2	2321
COLUMBIA HIGH-YIELD Z (d)	A	HY	C-	652.5	155	No load	0.85	1.2	4.1	4.2	7.1	6.3	3152

* Includes redemption fee. ** Includes deferred sales charge. † 12(b)-1 plan in effect. NA = Not available.

(a) Formerly Alliance North American Government Income/A. (b) Formerly American Century Treasury/Inv. (c) Formerly Columbia Fixed Income Securities (d) Formerly Columbia High-Yield

Data: Standard & Poor's

MUTUAL FUND SCOREBOARD

BOND FUNDS

ID	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$ MIL.	% CHG. 2001-2002	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%)			PORTFOLIO		HISTORY RESULTS VS. ALL FUNDS
								1 YR.	3 YR.	5 YR.	YIELD (%)	MATURITY (YEARS)	
MMERCE BOND INSTL.	C	CI	B	709.9	-3	No load	0.72	5.8	8.0	6.2	5.9	17.7	123114
OGE & COX INCOME	A	CI	A	3141.2	113	No load	0.45	10.8	10.6	7.7	5.1	7.3	122111
EYFUS A BONDS PLUS	C-	CI	C	594.8	0	No load	0.93	7.9	7.5	5.4	5.1	9.4	513433
EYFUS GNMA	C	GI	B	1066.8	10	No load	0.85†	9.0	9.1	6.5	4.8	17.0	523112
EYFUS INVEST.-GRADE INTERM. INC. INV.	A	CI	A	804.8	45	No load	0.70	6.8	8.4	7.7	5.6	7.4	111124
EYFUS PREMIER CORE BOND A	D	CI	C-	925.2	1	4.50**	0.99	5.9	6.9	6.0	5.0	7.2	514224
EYFUS PREMIER SHORT-TERM INC. D (e)	C-	CI	C	974.8	-7	No load*	0.80	2.5	5.9	5.6	5.2	9.1	514225
EYFUS PREMIER YIELD ADVANTAGE D (f)	UB			457.5	NM	No load*	0.75†	2.5	NA	NA	3.5	1.3	5
EYFUS SHORT INTERMEDIATE GOVT.	C	GS	C	474.7	-2	No load	0.73	5.2	6.7	5.7	3.5	3.1	214225
TON VANCE GOVT. OBLIG. B	C-	GS	C	557.5	138	0.00**	1.99†	7.0	7.7	5.6	6.3	5.0	424114
TON VANCE HIGH-INCOME B	C	HY	F	556.3	-18	0.00**	1.83†	-1.9	-6.0	-1.3	10.4	6.8	515555
TON VANCE INC. FUND OF BOSTON A	C	HY	D	816.2	0	4.75**	1.07†	-0.4	-2.5	1.3	10.2	6.8	515555
TON VANCE PRIME RATE RESERVES	D	UB	C-	2202.2	-30	0.00**	1.26†	0.7	2.4	4.0	4.1	4.1	215555
ERGREEN ADJUSTABLE RATE C	UB			2308.3	255	0.00**	1.45†	3.4	NA	NA	3.4	24.1	25
DERATED BOND B	F	CI	C-	426.3	12	0.00**	1.86†	6.1	5.5	3.6	6.1	11.3	545224
DERATED FUND FOR U.S. GOVT. SEC A	C-	GS	C	969.1	6	4.50	0.94	8.2	8.7	6.5	5.5	22.9	223223
DERATED GNMA TRUST INSTL.	B	GI	B+	914.9	15	No load	0.62	8.4	8.8	6.7	5.4	25.5	222223
DERATED GOVERNMENT INCOME SEC. F	C	GI	B	756.1	-7	1.00**	0.98	10.5	9.5	6.7	4.8	21.9	132221
DERATED HIGH INCOME BOND B	C	HY	F	824.7	-9	0.00**	1.98†	1.2	-3.4	-1.5	9.3	6.5	515555
DERATED HIGH YIELD TRUST	C-	HY	F	567.8	-6	No load	0.91	0.1	-3.8	-1.7	9.9	6.6	515555
DERATED INCOME TRUST INSTL.	B+	GI	B+	639.3	14	No load	0.60	8.5	9.0	7.0	5.4	22.2	223113
DERATED STRATEGIC INCOME B	C-	MU	D	550.8	-7	0.00**	1.98†	4.0	2.5	2.3	8.2	9.3	515555
DERATED TOTAL RETURN BD. INSTL.	A	CI	A	442.3	28	No load	0.35	9.1	9.5	7.3	5.9	11.5	122112
DERATED U.S. GOVT. SEC. 2-5 YRS. INSTL.	B+	GI	B+	724.7	19	No load	0.57	9.9	9.5	7.1	4.2	3.6	123111
DERATED ULTRA-SHORT BOND IS.	B	UB	C	840.2	10	No load	0.82†	1.3	4.6	5.1	3.9	8.6	214225
DELITY ADVISOR HIGH-INC. ADVTG. T (g)	C-	HY	F	1293.3	-16	3.50**	1.08†	-2.9	-4.8	-1.5	9.8	NA	515555
DELITY ADVISOR INTRMD. BOND T	C	CI	B	689.2	28	2.75**	0.95†	9.9	9.0	6.8	4.3	4.7	223111
DELITY CAPITAL & INCOME	C	HY	D	2624.0	-8	No load*	0.81	-0.4	-4.9	0.4	7.1	4.9	515555
DELITY CONVERTIBLE SEC.	B+	CV	A	1420.7	-18	No load	0.76	-13.9	-2.5	9.2	5.1	12.3	114555
DELITY GINNIE MAE	B	GI	B+	6606.2	65	No load	0.6	8.7	8.9	6.8	4.8	3.9	222223
DELITY GOVERNMENT INC.	B+	GI	B+	3260.7	38	No load	0.68	10.9	10.1	7.2	4.0	8.8	131121
DELITY HIGH-INCOME	C	HY	F	1633.8	2	No load*	0.76	2.3	-5.8	-1.5	9.1	5.2	515555
DELITY INTERMEDIATE BOND	B+	CI	B+	6031.1	26	No load	0.63	9.2	9.2	7.2	4.8	5.2	223112
DELITY INTERMEDIATE GOVT. INC.	B+	GI	A	1344.2	42	No load	0.59	10.2	9.5	7.3	4.0	4.3	223111
DELITY INVMNT.-GRADE BOND	B+	CI	B+	4605.5	27	No load	0.66	9.4	9.6	7.1	4.1	5.7	122112
DELITY MORTGAGE SECURITIES (h)	B+	GI	B+	1252.7	195	No load	0.63	9.1	9.3	7.1	4.6	2.3	312112
DELITY SHORT-TERM BOND	B+	CS	B	5005.1	38	No load	0.58	6.7	7.4	6.3	4.3	2.4	314114
DELITY SPARTAN GOVT. INCOME	B+	GI	A	1172.8	29	No load	0.50	11.5	10.4	7.5	4.4	8.7	131121
DELITY SPARTAN INVESTMENT-GRADE BOND	A	CI	A	2574.3	2	No load	0.50	9.6	9.8	7.4	4.5	6.0	122112
DELITY STRATEGIC INCOME		MU		652.8	381	No load	0.94	9.9	6.8	NA	6.6	10.0	1521
RST AMERICAN BOND IMMDEX Y	B+	CI	B+	1068.9	66	No load	0.48†	9.4	9.3	7.1	5.5	10.5	131122
RST AMERICAN FIXED-INCOME Y	B	CI	B	1152.8	-14	No load	0.70	8.3	9.1	6.6	4.9	15.8	142113
RST AMERICAN INTM.-TERM BOND Y	B+	CI	B+	1254.2	42	No load	0.75	8.1	8.7	6.9	4.9	8.1	123113
RANKLIN AGE HIGH-INC. A	C-	HY	F	1791.0	-14	4.25**	0.75†	-3.4	-2.7	-1.2	10.5	6.7	525555
RANKLIN U.S. GOVT. SEC. A	C-	GI	C	7744.2	7	4.25**	0.68†	8.6	8.9	6.8	5.4	22.5	223113
RANKLIN ADJ. U.S. GOVT. SEC.	C-	UB	C-	557.7	101	2.25**	0.95†	3.4	5.5	5.0	4.0	21.1	515225
RANKLIN STRATEGIC MORTGAGE	B	GI	B+	420.1	92	4.25	0.59	8.8	9.7	7.6	5.4	18.9	121112
REMONT BOND	A	CI	A	1163.7	36	No load	0.57	9.4	10.3	7.8	3.3	9.5	132112
MO EMERGING-COUNTRY DEBT III	B+	EB	A	684.0	52	No load	0.57	19.2	19.2	9.2	10.7	15.0	511111
OLDMAN SACHS HIGH-YIELD A	B	HY	D	961.0	62	4.50**	1.16†	-0.6	0.1	1.5	9.6	NA	515335
OLDMAN SACHS ULTRA-SHT. DUR. GOVT. A (i)	C	UB	C-	1020.0	695	1.50	0.89†	2.7	5.3	4.8	3.7	NA	515225
JOHN HANCOCK BOND	D	CI	C-	1137.6	-3	4.50**	1.11†	7.4	8.3	6.1	5.1	12.3	233224
JOHN HANCOCK GOVERNMENT INCOME A	C-	GI	C	562.5	4	4.50**	1.04†	10.3	9.7	7.0	4.5	6.3	131121
JOHN HANCOCK HIGH-YIELD BOND B	C-	HY	F	425.5	-13	0.00**	1.77†	-0.3	-2.8	-2.4	11.5	6.4	515555
JOHN HANCOCK STRATEGIC INCOME B	B	MU	C-	542.3	-5	0.00**	1.63†	6.6	3.7	3.6	6.4	8.8	515444
HARBOR BOND INSTL. (j)	A	CI	A	1377.3	35	No load	0.56	10.6	10.3	8.0	5.4	6.4	122111
PG GNMA INCOME A (k)	C	GI	B	636.2	27	4.75	1.22†	9.8	9.6	7.3	4.7	23.4	123111
INTERMEDIATE BOND FD. OF AMERICA A	C-	CS	C	3618.4	90	3.75**	0.76†	7.1	8.0	6.3	4.0	2.8	223224
ANUS ASPEN FLEXIBLE INCOME INSTL.	B+	CI	B+	568.5	46	No load	0.67	10.5	8.1	7.0	4.6	8.8	115111
ANUS FLEXIBLE INCOME	C	CI	B	1580.5	22	No load	0.77	9.9	7.3	6.2	5	NA	125211
ANUS HIGH-YIELD	A	HY	D	634.0	49	No load*	0.99	2.6	3.2	3.2	7.0	NA	515445
ANUS SHORT-TERM BOND	C	CS	C	478.8	-6	No load	0.65	3.6	6.0	5.5	3.5	2.8	214225
EGG MASN. INST. WSTN. ASST. MGMT CORE I	A	CI	A	1203.8	32	No load	0.50	8.7	10.5	7.5	4.6	11.5	131112
EGG MASN. INST. WSTN. ASST. MGMT. CORE PLUS I	CI			1467.7	80	No load	0.45	8.2	10.0	NA	4.7	NA	31113
EGG MASN. INST. WSTN. ASST. MGMT. INTERM. I	B+	CI	B+	600.6	-5	No load	0.45	8.9	9.0	7.0	4.9	5.6	122112
LIBERTY FEDERAL SECURITIES A	D	GI	C	1092.1	90	4.75**	1.21†	9.3	9.4	6.5	4.6	8.1	151122
LIBERTY INTERMEDIATE BOND Z (l)	B	CI	B	722.4	13	No load	0.79	5.9	8.6	6.7	6.3	9.5	222114
LIBERTY INTERMEDIATE GOVERNMENT INC. Z (m)	B+	GI	B+	474.0	1	No load	0.70	9.0	9.5	7.0	4.7	9.8	132112
LIBERTY QUALITY PLUS BOND Z (n)	B+	CI	B+	878.5	7	No load	0.73	10.5	10.3	7.1	4.9	10.0	141111
LIBERTY STRATEGIC INCOME A	C	MU	D	547.1	-5	4.75**	1.21†	8.7	3.6	3.5	8.1	7.9	425522

Includes redemption fee **Includes deferred sales charge †12(b)-1 plan in effect NA=Not available NM=Not meaningful.
 Formerly Dreyfus Invest Grade Bond Short-Term Income (f) Formerly Dreyfus Invest. Grade Bond: Yield Advantage. (g) Formerly Fidelity Advisor High-Yield/T. (h) Formerly Fidelity Mortgage Securities Fund/Initial. (i) Formerly Goldman Sachs Adjustable Rate Govt./A (j) Formerly Harbor Funds Bond Fund. (k) Formerly Pilgrim GNMA Income Fund/A. (l) Formerly Stein-
 e Income Trust: Interm. Bond Fund/S. (m) Formerly Galaxy Intermediate Government Inc./Trust. (n) Formerly Galaxy Quality Plus Bond/Trust.
 Data: Standard & Poor's

MUTUAL FUND SCOREBOARD

BOND FUND

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$MIL.	% CHG. 2001-2002	FEES		PERFORMANCE			PORTFOLIO		HISTORY RESULTS V ALL FUNDS
						SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)			YIELD	MATURITY (YEARS)	
								1 YR.	3 YR.	5 YR.			
LORD ABBETT BOND DEBENTURE A	B	HY	D	2976.4	19	4.75**	1.02†	-1.1	0.9	2.3	8.3	6.6	5155
LORD ABBETT U.S. GOVT. SECS. A	C-	GI	C	1101.1	1	4.75**	1.09†	9.8	9.2	6.7	4.5	8.7	1327
MAINSTAY CONVERTIBLE B	B	CV	D	451.2	-20	0.00**	2.04†	-9.5	-2.8	4.2	1.6	10.5	5155
MAINSTAY GOVERNMENT B	C-	GI	C	470.2	12	0.00**	1.92†	8.9	8.6	5.8	3.5	10.9	1427
MAINSTAY HIGH-YIELD CORP. BD. B	B	HY	D	2175.7	-12	0.00**	1.79†	-1.5	-2.6	0.5	10.5	7.0	5155
MARSHALL INTERMEDIATE BOND INV.	C	CI	B	620.6	-1	No load	0.72	8.1	7.6	6.1	5.1	9.3	2242
MELLON BOND M (o)		CL		909.8	-6	No load	0.80	7.1	NA	NA	5.2	10.6	1
MELLON INTERMEDIATE BOND M (p)		CI		454.6	13	No load	0.81	7.6	NA	NA	4.9	6.0	1
MERRILL LYNCH BOND HIGH-INCOME B	C-	HY	F	886.1	-35	0.00**	1.39†	-3.3	-4.9	-2.8	9.3	NA	5155
MERRILL LYNCH CORE BOND A	C-	CI	C	647.2	22	4.00**	0.59	9.4	8.7	6.2	4.2	NA	1332
MERRILL LYNCH U.S. GOVT. MORTG. B	C	GI	B	678.9	28	0.00**	1.49†	7.7	8.3	6.1	3.1	23.5	3232
METROPOLITAN WEST TOTAL RETURN BD. M	C	CI	C	577.7	-7	No load	0.65†	-0.9	6.0	5.9	7.6	14.4	1137
MFS BOND A	D	CI	C-	1048.2	6	4.75**	0.94†	8.6	8.4	5.5	5.8	12.1	5341
MFS GOVERNMENT MORTGAGE A	F	GI	C	588.1	6	4.75**	0.90†	8.1	8.5	6.3	4.8	2.7	3222
MFS GOVERNMENT SECURITIES A	C-	GI	C	853.4	57	4.75**	0.96†	9.5	9.5	6.8	4.9	NA	1312
MFS HIGH-INCOME A	C	HY	D	785.3	3	4.75**	1.06†	0.8	-1.8	0.5	9.3	6.6	5155
MONTGOMERY SHORT-DUR. GOVT. BD. R	B+	GS	B	534.4	50	No load	0.60	6.3	7.4	6.4	4.2	2.1	2141
J. P. MORGAN BOND INSTL.	A	CI	A	717.3	-29	No load	0.49	11.9	10	7.3	6.4	11.2	1222
J. P. MORGAN SHORT-TERM BOND INSTL.	B	CS	B	674.2	-2	No load	0.30	5.6	6.8	6.1	3.3	6.8	2141
MORGAN STANLEY FEDERAL SEC. TRUST B	C-	GI	C	469.5	0	0.00**	1.56†	9.1	8.6	5.9	4.1	14.5	1522
MORGAN STANLEY INSTL. CORE PLUS FIXED INC.	B+	CS	B+	3756.9	-9	No load	0.48	6.6	9.3	6.7	6.1	9.0	2221
MORGAN STANLEY INSTL. INV. GRD. FIXED INC. (q)	A	CS	B+	562.1	106	No load	0.50	7.7	9.7	7.0	4.8	9.3	1331
MORGAN STANLEY LTD.-DUR. INST.	A	U8	B	474.8	116	No load	0.43	4.9	7.1	6.1	3.1	2.0	4141
MORGAN STANLEY LTD.-DUR. U.S. TRUST (r)	C-	GS	C	902.5	127	No load	0.70†	4.1	6.1	5.3	4.0	1.2	2242
MORGAN STANLEY U.S. GOVT SEC. TRUST B	B	GI	B+	4430	8	0.00**	1.07†	9.9	9.1	6.7	4.7	14.4	2222
NATIONS CONVERTIBLE SEC. PRIME A		CV		442.3	212	No load	10.00	-9.4	-1.2	NA	3.5	10.7	155
NATIONS INTERM. BOND PRIME A		CI		670.3	726	No load	0.78	8.5	8.4	NA	3.5	4.7	415
NORTHEAST INVESTORS	C	HY	D	1751.8	39	No load	0.70	3.2	-0.6	0.3	8.8	5.4	5155
NORTHERN FIXED INCOME	B	CI	B+	773.7	3	No load	0.90	9.5	8.8	6.8	6.3	17.8	1422
ONE GROUP MORTGAGE BACKED SEC. I		GI		838.7	95	No load	0.40	10.0	NA	NA	6.6	18.1	1
ONE GROUP SHORT-TERM BOND I	B+	CS	B	849.7	16	No load	0.55	6.2	7.3	6.3	4.4	6.0	2141
OPPENHEIMER CHAMPION INC. A	C	HY	F	710.2	-4	4.75**	1.14†	-3.6	-2.1	0.1	8.4	5.5	5155
OPPENHEIMER HIGH-YIELD A	C-	HY	F	930.7	-4	4.75**	1.10†	-4.4	-2.8	-0.9	10.3	5.1	5155
OPPENHEIMER LTD.-TERM GOV. A	D	GS	C	1424.3	74	3.50**	0.88†	6.0	6.8	5.9	3.5	2.1	2142
OPPENHEIMER STRATEGIC INC. A	C	MU	D	3275.9	0	4.75**	1.01†	6.8	4.2	3.6	7.8	4.6	5155
OPPENHEIMER U.S. GOVT. TR. A	D	GI	C	896.6	40	4.75**	1.06†	10.4	9.2	6.6	4.2	3.8	3232
PBHG IRA CAPITAL PRESERVATION (s)		U8		947.8	562	No load*	1.00	4.6	5.8	NA	4.5	4.1	521
PIMCO HIGH-YIELD A	B	HY	D	638.1	65	4.50**	0.90†	-1.2	0.9	2.2	7.9	6.6	3153
PIMCO LOW DURATION A	C	CS	C	1616.0	160	3.00**	0.90†	7.2	7.3	6.2	3.4	2.5	2141
PIMCO REAL RETURN BOND C	A	GI	A	1212.9	211	0.00**	1.40†	16.0	12.1	9.0	3.2	13.4	5111
PIMCO SHORT-TERM A	C	U8	C-	827.2	64	2.00**	0.92†	2.4	4.8	4.9	2.5	1.0	4143
PIMCO TOTAL RETURN A	B	CI	B	6800.3	65	4.50**	0.90†	9.7	10.1	7.7	3.7	NA	1221
PIONEER HIGH-YIELD A		HY		1462.0	221	4.50**	0.96†	-2.7	8.6	NA	9.7	5.9	1111
T. ROWE PRICE GNMA	B	GI	B+	1389.5	22	No load	0.69	9.0	9.2	6.8	4.3	2.8	2221
T. ROWE PRICE HIGH-YIELD	B+	HY	D	1891.3	21	No load*	0.83	3.1	1.9	2.9	9.4	7.0	5152
T. ROWE PRICE INTL. BOND	C-	IB	C-	975.3	23	No load	0.95	21.8	4.5	3.8	2.7	8.0	1555
T. ROWE PRICE NEW INCOME	C	CI	C	1968.0	8	No load	0.72	7.5	8.9	6.0	4.7	6.3	4321
T. ROWE PRICE SHORT-TERM BOND	B	CS	B	874.1	48	No load	0.55	5.3	7.4	6.1	4.5	2.1	3141
T. ROWE PRICE SPECTRUM INCOME	A	MU	C-	2659.1	7	No load	0.80	6.9	6.3	5.1	5.1	6.9	2242
PRUDENTIAL GOVERNMENT INCOME A	C	GI	C	1012.8	3	4.00	0.98†	10.3	9.9	6.9	4.8	5.0	1421
PRUDENTIAL HIGH-YIELD A	C-	HY	F	1150.4	-15	4.00	0.88†	-1.6	-2.9	-1.1	9.2	7.4	5155
PUTNAM AMERICAN GOVT. INC. A	F	GI	C-	1377.5	-4	4.75**	0.98†	8.3	8.7	6.2	4.1	21.6	1412
PUTNAM CONVERTIBLE INCOME GROWTH A	D	CV	F	572.5	-17	5.75**	1.01†	-5.5	-7.4	-0.4	4.3	13.1	5155
PUTNAM DIVERSIFIED INCOME M	C-	MU	D	2303.0	48	3.25	1.19†	6.5	3.1	1.8	8.0	7.3	5155
PUTNAM HIGH-YIELD A	C-	HY	F	1918.0	29	4.75**	1.01†	-0.1	-2.1	-1.7	10.9	6.5	5155
PUTNAM HIGH-YIELD ADVANTAGE M	C-	HY	F	534.8	-23	3.25	1.25†	-0.8	-2.4	-2.4	11	6.5	5155
PUTNAM INCOME M	F	CI	C-	1462.4	34	3.25	1.20†	8.3	7.8	4.8	4.8	6.7	5341
PUTNAM INTERMEDIATE U.S. GOVT. INC. A	C-	GI	C	586.2	83	3.25**	0.96†	7.8	8.1	6.3	3.8	2.4	1232
PUTNAM U.S. GOVT. INCOME TR. A	D	GI	C	2384.6	6	4.75**	0.85†	7.7	8.3	6.3	4.5	2.9	3232
F. RUSSELL DIVERSIFIED BOND S	B+	CI	B+	802.2	11	No load	0.64	9.2	9.5	7.0	3.9	6.8	1321
F. RUSSELL INSTL. FIXED INCOME 1 I	B+	CI	B+	730.3	-10	No load	0.39	9.6	9.7	7.2	4.2	12.3	1321
F. RUSSELL MULTI-STRATEGY BOND S	C	CI	B	612.2	0	No load	0.89	8.7	8.7	6.3	4.2	6.9	2231
F. RUSSELL SHORT-TERM BOND S	B+	CS	B	607.5	41	No load	0.67	6.3	7.4	6.3	4.3	2.3	3141
SEI EMERGING MARKETS DEBT A	B	E8	B	479.8	2	No load	1.35	10.6	12.1	7.5	8.7	10.9	5111
SEI INTERNATIONAL FIXED INCOME A	C-	IB	D	788.7	-30	No load	1.00	19.5	2.9	3.8	2.9	5.5	1555
SCHWAB SHORT-TERM BOND MKT. (t)	B	GS	B	554.2	35	No load	0.35	6.6	7.7	6.3	4.4	NA	2142
SCHWAB TOTAL BOND MARKET (u)	B+	CI	B+	1030.5	7	No load	0.35	8.8	9.4	7.0	4.2	11.0	1321
SCHWAB YIELD PLUS SELECT		UB		1355.6	10	No load	0.40	2.8	4.9	NA	4.3	NA	521
SCUDDER GNMA AARP	B	GI	B	3963.3	3	No load	0.70	8.3	8.6	6.6	5.2	3.2	2232
SCUDDER HIGH-INCOME A (v)	C	HY	F	1794.7	-19	4.50**	0.96	-1.0	-2.3	-0.7	10.5	6.1	5155

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. NA=Not available

(o) Formerly MPAM Bond Fund/MPAM. (p) Formerly Morgan Stanley Instl. Grade Fixed Income/Instl. (r) Formerly Morgan Stanley Short-Term U.S. Treasury Trust. (s) Formerly UAM Fds. Tr. IRA Capital Preservation/Inst. (t) Formerly Schwab Inv. Short-Term Bond Market Index Fd. (u) Formerly Schwab Inv. Total Bond Market Index Fd. (v) Formerly Scudder High-Yield Fund/A.

Data Standard & Poor

MUTUAL FUND SCOREBOARD

BOND FUNDS

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$ MIL.	% CHG. 2001-2002	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%)			PORTFOLIO		HISTORY RESULTS VS. ALL FUNDS
								1 YR.	3 YR.	5 YR.	YIELD (%)	MATURITY (YEARS)	
DUDDER INCOME S	C-	CI	C	566.2	-19	No load	0.85	7.6	7.7	5.5	5.0	9.6	33324
DUDDER PRESERVATION PLUS INC. INVEST. (w)		UB		766.4	NM	No load*	1.00	5.0	6.0	NA	4.9	NA	1525
DUDDER SHORT-TERM BOND S	D	CS	C-	614.4	-4	No load	0.75	4.9	6.3	5.0	4.5	2.5	51425
DUDDER U.S. GOVT SECS A	C-	GI	C	3703.6	-3	4.50**	0.84	8.1	8.6	6.6	5.0	NA	22323
SMITH BARNEY ADJ. RATE INC. A (x)	C	UB	C-	801.2	143	0.00**	1.29†	3.1	4.8	4.6	3.2	21.9	51535
SMITH BARNEY DIV. STRATEGIC INC. A	C	MU	D	596.9	-8	4.50**	1.04†	4.3	3.0	2.9	5.9	24.4	32555
ANDISH FIXED-INCOME	C	CI	B	932.7	-42	No load	0.36	8.9	8.8	6.1	4.4	7.0	42322
STATE STREET RESEARCH GOVT. INC. A	D	GI	C	498.0	-1	4.50**	1.16†	9.0	8.5	6.4	4.9	12.8	13322
STRONG CORPORATE BOND INV.	D	CI	C-	655.4	-49	No load	1.00	1.4	5.3	4.6	6.3	12.5	22425
STRONG GOVERNMENT SEC. INV.	B+	GI	A	2279.4	38	No load	0.90	10.2	10.1	7.4	4.1	10.3	13211
STRONG HIGH-YIELD BOND INV.	C	HY	F	461.5	-51	No load*	1.00	-6.7	-4.9	-0.9	11	6.7	51555
STRONG SHORT-TERM BOND INV.	F	CS	C-	861.8	-35	No load	0.90	0.6	4.1	4.3	5.0	2.0	51445
STRONG ULTRA SHORT-TERM INC. INV. (y)	C-	UB	C	2037.1	-33	No load	0.80	0.5	3.8	4.3	4.1	0.6	51545
AAA GNMA	C	GI	B	712.0	33	No load	0.41	9.2	9.5	6.5	5.6	2.5	14122
AAA INCOME	B	CI	B+	1698.8	8	No load	0.55	8.6	9.8	6.7	5.4	6.8	14113
U.S. GOVERNMENT SECURITIES A	C-	GI	C	2623.6	72	3.75**	0.80†	9.0	9.1	6.6	3.7	4.2	13122
WINGARD GNMA	B+	GI	A	21386.8	36	No load	0.27	9.7	9.6	7.3	5.5	2.7	22211
WINGARD HIGH-YIELD CORP INV.	B+	HY	D	5322.1	0	No load*	0.27	1.7	1.2	2.4	8.6	6.5	41555
WINGARD INFLATION PROTECTED SEC.		GI		2825.8	299	No load	0.25	16.6	NA	NA	3.9	13.3	11
WINGARD INTERMEDIATE CORP.	B+	CI	A	2433.9	18	No load	0.21	10.3	10.1	7.3	5.8	6.2	13211
WINGARD INTERM.-TERM BOND INDEX	A	CI	A	2350.2	8	No load	0.21	10.9	11	7.8	5.6	7.6	14111
WINGARD INTERM.-TERM TSY. INV.	A	GI	A	2627.9	29	No load	0.29	14.1	11.9	8.4	4.8	5.9	14111
WINGARD LONG-TERM BOND INDEX	A	CL	A	749.7	36	No load	0.21	14.4	12.9	8.2	5.6	21.2	15111
WINGARD LONG-TERM CORP.	B	CL	B+	3647.8	0	No load	0.32	13.2	11.5	7.3	6.0	21.9	15211
WINGARD LONG-TERM TSY. INV.	B	GL	A	1607.6	14	No load	0.29	16.7	13.4	8.5	4.9	17.9	15141
WINGARD SHORT-TERM BOND INDEX	A	CS	B+	2380.1	33	No load	0.21	6.1	7.9	6.7	4.4	2.7	11414
WINGARD SHORT-TERM CORP.	B	CS	B	8508.8	16	No load	0.24	5.1	7.1	6.2	5.3	2.7	21415
WINGARD SHORT-TERM FEDERAL	A	GS	B+	2799.6	57	No load	0.31	7.6	8.5	6.9	4.0	2.3	21314
WINGARD SHORT-TERM TREASURY	B+	GS	B+	2166.2	57	No load	0.29	8.0	8.2	6.7	3.8	2.5	21413
WINGARD TOTAL BOND MARKET INDEX	B+	CI	B+	16200.9	14	No load	0.22	8.3	9.4	7.1	5.5	7.0	12213
WIN KAMPEN GOVERNMENT SEC. A	D	GI	C	1426.3	6	4.75**	0.99†	9.1	9.2	6.5	4.1	10.3	14122
WIN KAMPEN U.S. GOVT. A	F	GI	C-	1596.6	2	4.75**	0.87†	6.9	8.4	6.1	4.7	13.6	23314
ADDELL & REED ADV. BOND A	D	CI	C-	782.4	28	5.75	1.03†	9.3	8.6	6.3	4.4	11.9	23422
ADDELL & REED ADV. HIGH-INCOME A	B	HY	D	771.0	3	5.75	1.13†	0.6	0.1	1.4	7.2	6.2	51525
ADDELLS FARGO INTERM. GOVT. INCOME I	B	GI	B+	463.7	7	No load	0.68	9.9	9.4	7.0	5.5	6.1	13221
MAX EXEMPT													
MAX TAX-FREE INTERMEDIATE SHARES	B	MI	B+	565.0	-34	1.00	0.38	9.6	7.4	5.5	3.5	6.7	42442
MAX LIANCE MUNI. INCOME CA. A	D	MC	C-	714.7	-5	4.25**	0.77†	7.2	7.1	4.8	5.0	23.7	24344
MAX LIANCE MUNI. INCOME NATL. A	F	ML	F	406.2	-3	4.25**	0.64†	4.0	6.2	3.4	5.3	24.4	55335
AMERICAN CENT. CA. INTERM. TAX-FREE INV.	B+	MF	B+	469.9	5	No load	0.51	8.8	7.7	5.5	3.9	9.0	43342
AMERICAN CENT. CA. LT. TAX-FREE INV.	B+	MC	B+	533.7	65	No load	0.51	8.7	9.2	5.6	4.4	16.7	25143
AMERICAN CENTURY TAX-FREE BOND INV.	B+	MI	A	530.4	149	No load	0.51	9.1	8.1	5.8	3.7	11.1	32332
AMERICAN HIGH-INCOME MUNI. BD. A	B	MH	D	847.3	22	3.75**	0.77†	6.2	6.6	4.4	5.1	8.3	53424
AMERICAN HIGH YIELD TAX-EXEMPT A	B	MH	D	4505.6	-3	4.75**	0.80†	8.3	7.2	4.8	5.0	14.3	44343
AMERICAN INSURED TAX-EXEMPT A	C	ML	C	400.1	0	4.75	0.82†	10.6	8.9	5.5	6.1	12.1	44151
AMERICAN MN. TAX-EXEMPT A	C-	SL	D	378.3	2	4.75	0.83†	7.8	7.6	4.9	4.3	15.6	34333
AMERICAN TAX-EXEMPT BOND A	C	ML	C-	828.4	-4	4.75	0.81†	8.9	8.4	5.1	4.7	12.0	45142
AMERICAN ALBERT TAX-FREE RSV. LTD-TM. A	D	MS	D	1326.1	100	1.00	0.69	3.3	4.1	3.8	2.6	0.7	51545
AMERICAN COLUMBIA OREGON MUNI. BOND Z (a)	B+	SL	B+	503.4	2	No load	0.57	9.0	8.0	5.2	4.1	13.7	44332
AMERICAN CLAWARE TAX-FREE PA. A	F	SI	D	659.7	-3	4.50**	0.89†	9.0	7.8	4.6	4.4	9.7	45332
AMERICAN CLAWARE TAX-FREE USA A	C-	ML	D	480.8	-4	4.50**	0.87†	8.7	8.0	4.6	4.7	10.3	55242
AMERICAN REYFUS CA. TAX-EXEMPT BOND	B+	MC	B+	1091.4	-3	No load*	0.71	8.1	8.8	5.5	4.3	20.4	35153
AMERICAN REYFUS GENERAL MUNI. BOND	F	MI	D	396.3	-4	No load*	0.86†	6.7	6.6	3.8	5.1	21.0	45254
AMERICAN REYFUS INTM. MUNI. BOND	C-	MI	C	1036.2	-2	No load*	0.74	6.9	6.2	4.5	4.5	9.7	43444
AMERICAN REYFUS MUNI BOND	D	MI	C-	2356.3	-7	No load*	0.71	7.2	7.2	4.1	5.0	17.6	35154
AMERICAN REYFUS N.J. MUNI. BOND	B+	SL	B	546.6	-1	No load*	0.86†	8.9	8.1	5.1	4.7	16.7	35242
AMERICAN REYFUS N.Y. INTM. TAX-EXEMPT BOND	C	MN	B+	376.2	8	No load*	0.80†	8.6	7.6	5.3	4.0	9.1	33333
AMERICAN REYFUS N.Y. TAX-EXEMPT BOND	B	MN	B+	1436.4	-3	No load*	0.70	9.0	8.2	5.4	4.6	17.1	24242
AMERICAN UPREE K.Y. TAX-FREE INCOME	B	SI	B	569.6	14	No load	0.59	7.2	6.8	4.8	4.6	15.0	43434
AMERICAN VANCE NATL. MUNICIPALS B	C	ML	C-	1506.9	0	0.00**	1.24†	10.6	8.3	4.0	5.4	23.1	55251
AMERICAN VERGREEN HIGH-INC. MUNI. BOND A	C	MH	F	483.6	55	4.75**	0.83†	5.0	6.3	4.3	3.8	2.8	53435
AMERICAN VERGREEN MUNICIPAL BOND A		MI		805.1	-3	4.75**	0.84†	9.2	7.7	NA	4.1	15.9	5352
AMERICAN XCELSIOR INTERM.-TERM TAX EXEMPT	B	MI	B+	387.2	0	No load	0.52	9.1	7.5	5.4	3.3	9.8	23342
AMERICAN MODERATED MUNI. SEC. A	C-	ML	D	457.0	0	4.50**	0.86	9.8	8.1	4.5	4.2	16.3	45251
AMERICAN DELITY SPARTAN CA. MUNI. INC.	B+	MC	A	1669.6	3	No load*	0.43	8.5	8.5	5.8	4.2	13.7	24133
AMERICAN DELITY SPARTAN CT. MUNI. INC.	A	SI	A	454.3	9	No load*	0.41	10.0	8.7	5.9	4.1	12.1	33231
AMERICAN DELITY SPARTAN FL. MUNI. INC.	A	SI	B+	551.6	10	No load*	0.40	9.2	8.3	5.6	4.3	12.2	24332
AMERICAN DELITY SPARTAN INTERM. MUNI. INC.	B+	MI	A	1725.7	13	No load*	0.39	9.0	7.9	5.6	4.2	10.7	43332
AMERICAN DELITY SPARTAN MA. MUNI. INC.	A	SL	A	1956.1	0	No load*	0.42	9.7	8.6	5.8	4.3	15.0	43141

*Includes redemption fee **Includes deferred sales charge †12(b)-1 plan in effect NA=Not available. NM=Not meaningful.

Formerly Deutsche Preservation Plus Income/Invest (x) Formerly Smith Barney Adjustable Rate Govt Income/A. (y) Formerly Strong Ultra Short Fund/Inv
Formerly Columbia Oregon Municipal Bond.

Data: Standard & Poor's

MUTUAL FUND SCOREBOARD

BOND FUND

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$ MIL.	% CHG. 2001-2002	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%)			PORTFOLIO		HISTORY RESULTS ALL FUNDS
								1 YR.	3 YR.	5 YR.	YIELD (%)	MATURITY (YEARS)	
FIDELITY SPARTAN MI. MUNI. INC.	A	SL	B+	556.1	7	No load*	0.44	9.8	8.5	5.6	4.4	12.9	432
FIDELITY SPARTAN MUNI. INC.	A	MH	A	4744	3	No load*	0.43	10.4	9.2	6.1	4.5	15.0	331
FIDELITY SPARTAN N.J. MUNI. INC.	A	SI	A	572.4	11	No load*	0.41	9.7	8.3	5.8	4.1	14.0	332
FIDELITY SPARTAN N.Y. MUNI. INC.	A	MY	A	1467.4	8	No load*	0.44	10.9	9.3	6.1	4.2	14.8	241
FIDELITY SPARTAN OH. MUNI. INC.	A	SL	A	426.8	3	No load*	0.46	9.7	8.7	5.6	4.3	14.4	442
FIDELITY SPARTAN SH-INTERM. MUNI. INC.	B+	MS	B	1631.9	30	No load*	0.41	6.6	6.2	5.0	3.2	6.9	5152
FIRST AMERICAN TAX-FREE Y	B+	ML	B+	472.2	-6	No load-	0.70	9.8	8.7	5.5	4.3	16.5	3514
FIRST INVESTORS INS. TAX-EXEMPT A	C	ML	C-	898.0	-2	5.75**	1.05†	10.1	8.5	5.4	4.0	13.0	4415
FRANKLIN AZ. TAX-FREE INC. A	F	SI	D	874.7	0	4.25**	0.64†	7.7	7.0	4.4	4.8	21.6	4435
FRANKLIN CA. HIGH-YIELD MUNI A	F	MF	D	517.2	1	4.25**	0.61†	6.8	7.7	4.6	5.3	23.6	2523
FRANKLIN CA. INS. TAX-FREE INC. A	C-	MF	C	1834.1	5	4.25**	0.61†	7.8	8.3	5.4	4.4	23.5	2415
FRANKLIN CA. INTERM.-TERM. TAX-FREE A	C	MF	B	380.5	38	2.25**	0.70†	7.7	7.3	5.3	3.8	10.6	2335
FRANKLIN CA. TAX-FREE INC. A	D	MF	C	13329.5	-1	4.25**	0.57†	6.8	8.2	5.2	4.7	22.3	2515
FRANKLIN FL. TAX-FREE INC. A	B	SI	C	1590.0	0	4.25**	0.62†	8.7	8.3	5.5	4.6	22.4	2423
FRANKLIN FEDERAL TAX-FREE INC. A	C	ML	C-	6648.5	-1	4.25**	0.59†	7.2	7.3	4.9	4.8	20.8	3435
FRANKLIN HIGH-YLD. TAX-FREE INC. A	C-	MH	F	4420.0	-6	4.25**	0.62†	5.1	5.6	3.6	5.5	19.1	5452
FRANKLIN INSURED TAX-FREE INC. A	C	MI	C	1589.0	4	4.25**	0.63†	8.7	8.4	5.4	4.5	21.8	3414
FRANKLIN MA. INSURED TAX-FREE A	C	SI	C	414.4	11	4.25**	0.69†	8.6	8.6	5.4	4.4	23.2	4414
FRANKLIN MI. INS. TAX-FREE INC. A	B	SI	B	1228.7	5	4.25**	0.64†	9.0	8.3	5.7	4.4	22.4	2323
FRANKLIN MN. INS. TAX-FREE INC. A	C	SI	C	505.4	4	4.25**	0.66†	8.0	8.2	5.2	4.5	20.4	3413
FRANKLIN MO. TAX-FREE INC. A	C	SI	C	446.0	8	4.25**	0.68†	8.9	8.5	5.3	4.5	22.2	3525
FRANKLIN N.C. TAX-FREE INC. A	C	SI	C	411.6	9	4.25**	0.69†	9.3	8.6	5.3	4.4	21.4	3523
FRANKLIN N.J. TAX-FREE INC. A	C	SI	C	756.1	6	4.25**	0.65†	8.6	8.3	5.4	4.5	22.9	3423
FRANKLIN N.Y. TAX-FREE INC. A	C-	MN	B	4663.3	1	4.25**	0.59†	9.1	8.1	5.7	4.7	23.0	2323
FRANKLIN OH. INS. TAX-FREE INC. A	C	SI	C	796.8	9	4.25**	0.65†	8.3	8.1	5.3	4.5	20.4	3423
FRANKLIN OR. TAX-FREE INC. A	D	SI	C-	542.8	8	4.25**	0.67†	8.1	7.7	4.8	4.4	21.5	4424
FRANKLIN PA. TAX-FREE INC. A	C	SI	C	696.3	4	4.25**	0.67†	9.0	8.4	5.2	4.6	20.8	4423
FRANKLIN VA. TAX-FREE INC. A	D	SI	C-	418.1	8	4.25**	0.69†	7.7	7.6	4.8	4.5	23.1	3424
GOLDMAN SACHS HIGH-YIELD MUNI. A		MH		599.0	102	4.50**	0.99†	7.4	NA	NA	5.3	NA	2
JOHN HANCOCK TAX-FREE BOND A	D	ML	F	532.6	-1	4.50**	0.96†	7.2	6.7	4.3	4.9	18.0	4435
HAWAIIAN TAX-FREE A	C	SI	C	658.7	6	4.00**	0.72†	9.0	7.7	5.2	4.3	13.3	3334
LIBERTY INTERM. TAX-EXEMPT BOND Z (b)	B	MI	B+	602.5	145	No load	0.74	8.1	7.8	5.3	3.5	4.3	2433
LIBERTY MANAGED MUNICIPALS Z (c)	B+	ML	B+	434.2	-5	No load	0.76	9.6	8.6	5.5	4.5	14.9	4415
LIBERTY TAX-EXEMPT A	C-	ML	D	1894.9	-3	4.75**	0.98†	9.6	7.8	4.9	4.6	17.3	2525
LIMITED TERM TAX-EXEMPT BOND OF AMER. A	C-	MI	C	597.9	61	3.75**	0.70†	7.8	6.8	5.0	3.5	8.8	4243
LORD ABBETT NATL. TAX-FREE INC. A	C-	MI	C	509.4	-0	3.25**	1.01†	8.8	8.4	5.0	4.5	21.8	2514
MELLON NATL. INTERM. MUNI. BOND M (d)		MI		616.4	27	No load	0.77	8.2	NA	NA	3.9	11.7	3
MELLON PENN. INTERM. MUNI. BOND M (e)		SI		803.1	-7	No load	0.92	7.8	NA	NA	4.0	10.3	3
MFS MUNICIPAL BOND A	C	ML	C	1264.8	0	4.75**	0.59	10.1	8.7	5.4	4.7	15.2	5414
MFS MUNICIPAL HIGH-INCOME A	C	MH	F	1058.6	1	4.75**	0.76	6.3	6.3	4.2	5.8	17.4	3452
J.P. MORGAN TAX AWARE ENHNC.D.-INC. INSTL.		MS		1644.3	45	No load	0.25†	2.3	3.9	NA	2.2	15.9	54
MORGAN STANLEY CA. TAX-FREE INC. B	B	MC	B	671.3	-5	0.00**	1.04†	8.1	7.9	5.0	4.3	18.3	4415
MORGAN STANLEY TAX-EXEMPT SEC. D	B+	ML	B+	1138.6	-6	No load	0.49	9.0	8.2	5.5	4.8	16.7	3424
MUNICIPAL INVESTMENT ACCUM. PROG.	C-	ML	D	389.5	-6	No load	0.82	7.1	7.1	3.6	5.2	NA	5525
NORTHERN INTERMEDIATE TAX-EXEMPT	A	MI	A	676.5	-3	No load	0.85	9.1	8.3	6.4	3.4	11.5	1344
NORTHERN TAX-EXEMPT	B+	ML	B+	556.9	2	No load	0.85	9.8	8.9	5.6	4.2	16.6	3513
NUVEEN FLAGSHIP KY. MUNI. BD. A	D	SI	C-	410.9	0	4.20**	0.84†	8.3	7.7	4.8	4.6	20.1	4433
NUVEEN FLAGSHIP LTD.-TERM MUNI. BD. A	D	MI	C-	457.7	18	2.50**	0.73†	6.4	6.0	4.5	4.2	8.1	4253
NUVEEN INSURED MUNI. BOND R	B	MI	B+	664.1	1	No load	0.64	8.8	8.1	5.3	4.9	20.2	3423
NUVEEN INT.-DUR. MUNICIPAL BOND R	C	MI	B	2540.5	-1	No load	0.59	7.0	7.5	5.0	4.8	17.0	3433
ONE GROUP TAX-FREE BOND I	B+	MI	B+	537.4	-5	No load	0.58	9.7	8.6	5.6	4.5	14.4	3424
OPPENHEIMER AMT. N.Y. MUNICIPAL A (f)	F	MY	D	515.5	-2	4.75**	0.89†	6.4	7.4	4.6	5.1	12.7	3524
OPPENHEIMER CA. MUNICIPAL A	F	MC	D	411.1	3	4.75**	0.86†	8.4	8.2	4.6	4.7	14.0	3515
OPPENHEIMER MUNICIPAL BOND A	F	ML	F	564.2	-2	4.75**	0.88†	8.0	6.1	3.7	5.0	16.5	3545
OPPENHEIMER ROCHESTER LTD. N.Y. MUNI. A	D	MN	C-	1794.3	61	3.50**	0.78†	6.3	6.2	4.7	4.7	4.9	3243
OPPENHEIMER ROCHESTER MUNIS. A	F	MY	D	4271.0	3	4.75**	0.70†	5.5	7.5	4.6	5.9	14.5	2513
T. ROWE PRICE HIGH YIELD	B	MH	D	1106.9	-1	No load	0.71	6.4	6.4	3.8	5.6	17.9	4543
T. ROWE PRICE INCOME	B	MI	B+	1470.5	2	No load	0.54	9.2	8.6	5.5	4.7	15.4	3414
T. ROWE PRICE MD. BOND	A	SI	A	1315.6	10	No load	0.49	9.5	8.6	5.7	4.6	15.9	3423
T. ROWE PRICE SHORT INTERM.	B	MS	B	545.6	23	No load	0.52	6.2	6.2	4.9	3.6	4.0	4252
T. ROWE PRICE VA. BOND	A	SI	A	393.1	11	No load	0.53	9.7	8.8	5.7	4.4	15.1	3413
PRUDENTIAL MUNI. BOND HIGH-INCOME A	C	MH	F	491.5	-5	3.00	0.84†	6.5	5.0	3.4	5.4	9.3	4453
PRUDENTIAL NATIONAL MUNICIPALS A	B	ML	C	580.1	-2	3.00	0.89†	9.3	8.2	5.1	4.4	17.2	4424
PUTNAM CA. TAX-EXEMPT INC. A	D	MC	C-	2628.4	-1	4.75**	0.75†	7.7	8.0	5.0	4.5	10.0	4414
PUTNAM MUNICIPAL INCOME A	F	MI	F	830.9	-1	4.75**	0.95†	5.4	6.3	4.1	5.1	9.6	4444
PUTNAM N.Y. TAX-EXEMPT INC. A	D	MN	C-	1322.5	-3	4.75**	0.81†	9.3	8.3	5.2	4.1	16.5	4415
PUTNAM TAX-EXEMPT INC. A	F	MI	D	1637.1	-3	4.75**	0.81†	7.1	7.3	4.5	4.7	17.8	5434
PUTNAM TAX-FREE INSURED A	C	ML	C-	370.4	9	4.75**	0.82†	9.6	8.6	5.1	3.9	16.9	5515
PUTNAM TAX-FREE HIGH YIELD A	F	MH	F	1075.3	-5	4.75**	0.90†	2.9	4.0	2.8	6.0	11.2	4454
SAFECO MUNICIPAL BOND INV.	A	ML	A	548.6	0	No load	0.62	10.3	9.8	5.7	4.7	22.7	2513

*Includes redemption fee **Includes deferred sales charge †12(b)-1 plan in effect. NA=Not available

(b) Formerly Galaxy Intermediate Tax-Exempt Bond/Trust. (c) Formerly SteinRoe Municipal Trust: Managed Municipals. (d) Formerly MPAM Natl. Intermediate Muni. Bond Fund MPA (e) Formerly MPAM Penn Intermediate Muni. Bond Fund MPAM (f) Formerly Oppenheimer New York Muni/A.

Data: Standard & Poor

Has your money fund yield slowed to a trickle?



There is an alternative to today's low rates!

Consider the **Strong Ultra Short-Term Income Fund** for a higher return potential on your savings goals of one year or longer.

Easy access to your money.

Although this isn't a money fund, it provides you with check writing, and there are no penalties for withdrawal.

Your total return consists of the income from the portfolio's bonds as well as gains and losses in the values of those bonds. Income can be offset if the values of the bonds decline.

THE STRONG ULTRA SHORT-TERM INCOME FUND

30-Day Current Yield
as of 1-13-03

3.49%

1-800-368-1565 | www.Strong.com

STRONG

0.83%, 4.36%, 5.38%

were the Fund's 1-, 5-, and 10-year average annual total returns as of 12-31-02. Performance is historical and does not represent future results. Investment returns, principal value, and yields vary, and you may have a gain or loss when you sell shares. Please keep in mind that the Fund is subject to interest rate risk — generally, when interest rates rise, its share price declines. Over the past year, the Fund's total return has trailed that of the average money fund. Current performance may be lower or higher than the quoted performance. Call or visit www.Strong.com for current performance information. For more complete information, including management fees and expenses, please call for a free prospectus kit or download one at www.Strong.com. Please read it carefully before you invest or send money. Performance is for Investor Class shares only. Please consult a prospectus for information about all share classes. ■ The Fund invests a portion of its assets in lower-quality securities that present a significant risk for loss of principal and interest. Please consider this before investing. ■ The Fund's average maturity is usually one year or less. ■ Retirement accounts may be subject to early withdrawal penalties. ■ Securities are offered through Strong Investments, Inc. RT30857 01-03

MUTUAL FUND SCOREBOARD

BOND FUNDS

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$ MIL.	% CHG. 2001-2002	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%)			PORTFOLIO		HISTO RESULT ALL FUND
								1 YR.	3 YR.	5 YR.	YIELD (%)	MATURITY (YEARS)	
SCUDDER CA. TAX-FREE INC. A	C	MC	C	704.4	-3	4.50**	0.81	10.1	8.5	5.4	4.2	13.9	341
SCUDDER HIGH-YIELD TAX-FREE ADV. S	B+	MH	B+	559.1	4	No load	0.77	9.2	7.8	5.4	5.5	17.6	234
SCUDDER MA. TAX-FREE S	A	SL	A	520.0	7	No load	0.74	10.9	8.6	5.9	4.7	13.1	332
SCUDDER MGD. MUNI. BOND A		ML		2404.8	-3	4.50	0.77†	9.9	NA	NA	4.4	12.7	
SCUDDER MEDIUM-TERM TAX-FREE S	B	MI	B+	560.6	-3	No load	0.68	8.8	7.3	5.2	4.2	8.2	434
SEI TAX-EXEMPT INTERM.-TERM MUNI. A	B	MI	B+	834.6	-10	No load	0.60	8.9	7.3	5.3	3.7	6.6	424
SIT TAX-FREE INC.	C-	MI	C	417.9	-7	No load	0.75	5.7	6.6	4.3	4.5	13.3	244
SMITH BARNEY CA. MUNI. A	D	MC	C-	740.2	6	4.00**	0.68†	6.2	8.5	4.9	4.4	10.7	451
SMITH BARNEY MD. MUNICIPALS A	C-	ML	D	2024.9	-1	4.00**	0.68†	7.3	8.7	4.5	4.5	21.9	551
SMITH BARNEY MUNI. NATIONAL A	C-	ML	D	382.3	-11	4.00**	0.66†	6.3	7.5	4.6	5.5	21.6	551
SMITH BARNEY N.Y. MUNICIPALS A	C-	MY	C	640.4	0	4.00**	0.70†	8.9	8.4	5.2	4.4	21.8	351
STATE FARM MUNICIPAL BOND	B+	MI	A	417.7	8	No load	0.16	9.4	8.1	5.8	4.5	8.3	333
STRONG SHORT-TERM MUNICIPAL BD. INV.	C	MS	C	592.6	14	No load	0.60	5.1	5.1	4.4	4.0	3.1	425
STRONG ULTRA SHORT-TERM MUNI. INC. INV. (g)	F	MS	D	1261.4	-1	No load	0.70	2.5	3.2	3.4	2.9	0.7	515
TAX-EXEMPT BOND OF AMERICA A	C	MI	B	2728.7	21	3.75**	0.63†	8.4	7.9	5.4	4.4	8.0	333
TAX-EXEMPT FUND OF CA. A	C-	MF	C	554.1	15	3.75**	0.68†	8.1	7.7	5.4	4.1	15.0	332
TAX-FREE TRUST OF ARIZONA A	C	SI	C	447.0	11	4.00**	0.69†	8.8	7.5	5.2	4.1	NA	434
THORNBURG INTM. MUNI. NATL. A	C-	MI	C	398.1	15	2.00**	0.92†	8.1	6.6	4.6	4.0	8.8	434
THORNBURG LIMITED-TERM MUNI. NATL. A	C	MI	C	887.3	29	1.50**	0.95†	7.4	6.3	4.8	3.4	4.9	525
USAA TAX-EXEMPT CALIFORNIA BOND	B	MF	B+	688.3	1	No load	0.49	8.3	8.6	5.3	4.5	18.9	251
USAA TAX-EXEMPT INTERMEDIATE TERM	B	MI	B+	2523.9	4	No load	0.46	7.7	7.7	5.3	4.9	8.6	233
USAA TAX-EXEMPT LONG TERM	B	MI	B+	2185.1	4	No load	0.46	9.7	8.7	5.2	4.9	16.7	351
USAA TAX-EXEMPT SHORT TERM	B	MS	B	1223.3	7	No load	0.48	5.0	5.4	4.5	3.4	2.3	415
USAA TAX-EXEMPT VIRGINIA BOND	A	SI	B+	492.7	6	No load	0.52	9.3	8.9	5.5	4.5	16.9	351
VANGUARD CA. INTERM.-TERM TAX-EXEMPT INV. (h)	B+	MF	A	1630.4	-1	No load	0.17	9.2	8.1	5.9	4.1	5.9	322
VANGUARD CA. LONG-TERM TAX-EXEMPT INV. (i)	B+	MF	A	1449.4	-9	No load	0.18	9.4	9.2	6.1	4.6	10.4	341
VANGUARD FL. LONG-TERM TAX-EXEMPT (j)	A	SI	A	752.9	-10	No load	0.15	10.8	9.5	6.4	4.4	8.2	241
VANGUARD HIGH-YIELD TAX-EXEMPT	B+	ML	B	2634.4	-7	No load	0.19	7.3	7.8	5.2	5.2	8.7	242
VANGUARD INS. LONG-TERM TAX-EXEMPT	A	MI	A	1919.8	2	No load	0.19	10.0	9.3	6.1	4.6	8.4	341
VANGUARD INTERM.-TERM TAX-EXEMPT	B	MI	B+	7186.8	6	No load	0.19	7.9	7.4	5.4	4.4	5.4	323
VANGUARD LIMITED-TERM TAX-EXEMPT	B+	MS	B	2700.3	28	No load	0.19	6.3	6.1	4.9	3.7	3.1	425
VANGUARD LONG-TERM TAX-EXEMPT	A	ML	A	1226.1	0	No load	0.19	10.1	9.3	6.0	4.6	9.0	341
VANGUARD MA. TAX-EXEMPT		SI		375.0	28	No load	0.16	9.1	9.0	NA	4.5	7.3	417
VANGUARD N.J. LONG-TERM TAX-EXEMPT INV. (k)	A	SI	A	957.6	0	No load	0.20	9.9	8.9	6.1	4.7	7.6	231
VANGUARD N.Y. LONG-TERM TAX-EXEMPT INV. (l)	B+	MN	A	1339.6	1	No load	0.20	10.8	9.5	6.1	4.3	7.4	341
VANGUARD OH. LONG-TERM TAX-EXEMPT	A	SI	A	526.2	8	No load	0.17	10.7	9.4	6.2	4.5	6.7	341
VANGUARD PA. LONG-TERM TAX-EXEMPT INV. (m)	A	SI	A	1598.3	4	No load	0.20	10.1	9.2	6.1	4.6	8.4	341
VANGUARD SHORT-TERM TAX-EXEMPT	C-	MS	C	1983.6	50	No load	0.19	3.5	4.4	4.0	2.7	1.2	515
VAN KAMPEN HIGH-YIELD MUNI. A	C	MH	F	1520.8	19	4.75**	0.90†	5.9	5.3	4.1	5.8	22.6	235
VAN KAMPEN INSURED TAX-FREE INC. A	C-	MI	C-	1181.0	3	4.75**	0.87†	9.8	8.7	5.2	3.9	16.1	351
VAN KAMPEN MUNICIPAL INCOME A	D	ML	F	664.5	-3	4.75**	0.87†	9.4	7.0	4.1	4.5	15.1	454
VAN KAMPEN STRATEGIC MUNI. INCOME A (n)	D	MH	F	560.7	-6	4.75**	0.86†	6.1	4.6	3.1	5.2	18.8	345
WADDELL & REED ADV. MUNI. BOND A	D	ML	F	744.0	0	4.25	0.89†	9.1	6.9	4.0	3.7	13.7	453
WADDELL & REED ADV. MUNI. HIGH INC. A	C-	MH	F	420.9	0	4.25	1.03†	5.8	5.4	3.5	5.2	9.8	255
WELLS FARGO CA. TAX-FREE A	C	MC	C	391.3	2	4.50**	0.77	7.6	8.4	5.6	4.6	18.1	241

*Includes redemption fee **Includes deferred sales charge. †12(b)-1 plan in effect. NA=Not available.

(g) Formerly Strong Municipal Advantage Fund/Inv. (h) Formerly Vanguard CA. Insrd. Interm.-Term TE/Inv. (i) Formerly Vanguard CA. Insrd. Long-Term TE/Inv.

(j) Formerly Vanguard FL. Insrd. Long-Term TE. (k) Formerly Vanguard N.J. Insrd. Long-Term TE/Inv. (l) Formerly Vanguard N.Y. Insrd. Long-Term TE/Inv.

(m) Formerly Vanguard PA. Insrd. Long-Term TE/Inv. (n) Formerly Van Kampen Tax-Free High-Income/A.

Data: Standard & Po

Telephone Numbers

AIM FUNDS
800-347-4246
ALLIANCE FUNDS
800-221-5672
AMERICAN CENTURY FUNDS
800-345-2021
AMERICAN FUNDS
800-421-0180
ARMADA FUNDS
800-622-3863
ATLAS ASSETS FUNDS
800-933-2852
AXP FUNDS
800-862-7919
BERNSTEIN FUNDS
800-221-5672
CALAMOS FUNDS
800-223-9943
CALVERT FUNDS
800-317-2274
CALVERT TAX-FREE FUNDS
800-368-2745

COLUMBIA FUNDS
800-345-6611
COMMERCE FUNDS
800-995-6365
DELAWARE TAX-FREE FUNDS
800-231-8002
DODGE & COX FUNDS
800-621-3979
DREYFUS FUNDS
800-645-6561
DUPREE FUNDS
800-866-0614
EATON VANCE FUNDS
800-225-6265
EVERGREEN FUNDS
800-343-2898
EXCELSIOR FUNDS
800-446-1012
FEDERATED FUNDS
800-341-7400
FIDELITY FUNDS
800-522-7297
FIRST AMERICAN FUNDS
800-677-3863
FIRST INVESTORS FUNDS
800-423-4026

FRANK RUSSELL FUNDS
800-426-7969
FRANKLIN FUNDS
800-342-5236
FREMONT FUNDS
800-548-4539
GMO TRUST FUNDS
N/A
GOLDMAN SACHS FUNDS
800-621-2550
HARBOR FUNDS
800-422-1050
HAWAIIAN TAX FREE FUNDS
800-437-1020
ING FUNDS
800-992-0180
JANUS FUNDS
800-525-3713
JOHN HANCOCK FUNDS
800-225-5291
JPMORGAN FUNDS
800-348-4782
LIBERTY FUNDS
800-345-6611
LM INSTITUTIONAL FUNDS
800-425-6432

LORD ABBETT FUNDS
800-201-6984
MAINSTAY FUNDS
800-624-6782
MARSHALL FUNDS
800-341-7400
MERRILL LYNCH FUNDS
800-637-3863
METROPOLITAN WEST FUNDS
800-241-4671
MFS FUNDS
800-225-2606
MONTGOMERY FUNDS
800-572-3863
MORGAN STANLEY FUNDS
800-212-3825
MPAM FUNDS
800-445-1854
NATIONS FUNDS
800-321-7854
NORTHEAST INVESTOR FUNDS
800-225-6704
NORTHERN FUNDS
800-595-9111
NUVEEN FUNDS
800-257-8787

ONE GROUP MUTUAL FUNDS
800-779-0771
OPPENHEIMER FUNDS
800-525-7048
PBHG FUNDS
800-433-0051
PIMCO FUNDS
800-927-4648
PIONEER FUNDS
800-821-1239
PRUDENTIAL FUNDS
800-225-1852
PUTNAM FUNDS
800-225-1581
SAFECO FUNDS
800-528-6501
SCHWAB FUNDS
800-266-5623
SCUDDER FUNDS
800-621-1048
SEI FUNDS
800-342-5734
SIT FUNDS
800-332-5580
SMITH BARNEY FUNDS
800-451-2010

STANDISH FUNDS
800-729-0066
STATE FARM FUNDS
800-447-0740
STATE STREET RESEARCH FUNDS
800-531-0131
STRONG FUNDS
800-368-3863
T ROWE PRICE FUNDS
800-638-5660
TAX FREE TRUST FUNDS
800-437-1020
THORNBURG FUNDS
800-847-0200
USAA FUNDS
800-531-8181
USAA TAX EXEMPT FUNDS
800-531-8722
VAN KAMPEN FUNDS
800-421-5666
VANGUARD FUNDS
800-662-2739
WADDELL & REED ADVISOR FUNDS
800-366-5465
WELLS FARGO FUNDS
800-222-8222



Stand out from the crowd

No matter which other business publications you read, you're already behind the times unless you also read *The Kiplinger Letter*.

Because unlike publications that report news after the fact, *The Kiplinger Letter* tells you what's likely to happen in business, the economy and government before it happens.

The Kiplinger Letter delivers weekly forecasts tailored for corporate leaders, seasoned managers and serious investors. With accuracy and reliability forged by eight decades of experience, each weekly

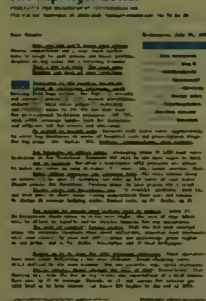
issue delivers four pages of concise guidance and insightful analysis, providing clients with business and economic forecasts of unrivaled clarity and practical value.

See for yourself, with no risk or obligation. Request four complimentary issues of *The*

Kiplinger Letter today. You'll also receive a bonus copy of Kiplinger's Special Report, *15 Trends That Will Change the Way You Do Business*.

Call 1.800.544.0155
and ask for operator 27.
Or visit www.kiplinger.com/bw

The Kiplinger Letter



CALL IT THE PEPSI BLUE GENERATION

So much for the one-soda-fits-all strategy

When 130 million viewers tune into Super Bowl XXXVII this year, PepsiCo Inc. won't disappoint those who are counting on it to deliver a parade of glitzy and entertaining ads. What viewers won't see, though, is a single commercial devoted to Pepsi's flagship cola. Instead, three of the four slots, purchased for a cool \$2 million apiece, will go to newer and narrower brands such as lemon-lime Sierra Mist and lemon-flavored Pepsi Twist.

It's the latest sign of how the soft-drink giant has reformulated its mission from bolstering core brands like Pepsi-Cola and Mountain Dew to peppering the market with niche products and brand extensions. Why the change? Pepsi's market has splintered and big brands no longer have universal appeal. To attract a younger, less cohesive generation, Purchase (N.Y.)-based Pepsi has had to rethink the way it develops and markets its wares. "The era of the mass brand has been over for a long time," says David Burwick, chief marketing officer of Pepsi-Cola North America. "It took our category longer than most to accept that."



GULP: One of Sierra Mist's Super Bowl ads



Pepsi's response has been a raft of new products, most bearing the Pepsi or Mountain Dew names. So far, its biggest hit has been cherry-flavored, caffeine-loaded Mountain Dew Code Red. Pepsi Twist and berry-flavored Pepsi Blue have developed more modest followings. Sierra Mist is a youth-skewed challenger to Cadbury Schweppes PLC's 7 Up. Beverage execs expect to see at least one

or two more launches this year—possibly including an orange-flavored Dew extension called Monsoon. Burwick says no decisions have been made, but adds that Dew, in particular, has been underexploited for too long. "It was like we had millions of dollars in the bank and had never written a check," he says.

Are these new entrants likely to become Diet Pepsi-like blockbusters? Probably not, but Pepsi isn't expecting that. Code Red, Twist, Blue, and Mist account for

barely 5% of Pepsi's soft-drink sales the past, Pepsi might not have bothered with such small fry. Today, though, looking for products that can crack hard-to-reach demographic group. Code Red, for example, has reeled in urban women, and African Americans who not previously shown any impulse to the Dew. That could help offset flagging Pepsi's 2% volume sales decline last year.

Because these new drinks are narrowly targeted, Pepsi has had to fine-tune its marketing techniques. To launch Code Red in 2001, the company handed out a million samples at youth magnets like the Winter X Games and the NCAA Final Four basketball tournament before the brand was available in stores. That helped create a buzz that got Code Red to a brisk start. For teen-enthusiast Pepsi Blue last year, Pepsi went beyond hip-hop rock stars to appeal to a wider audience. Instead, it worked

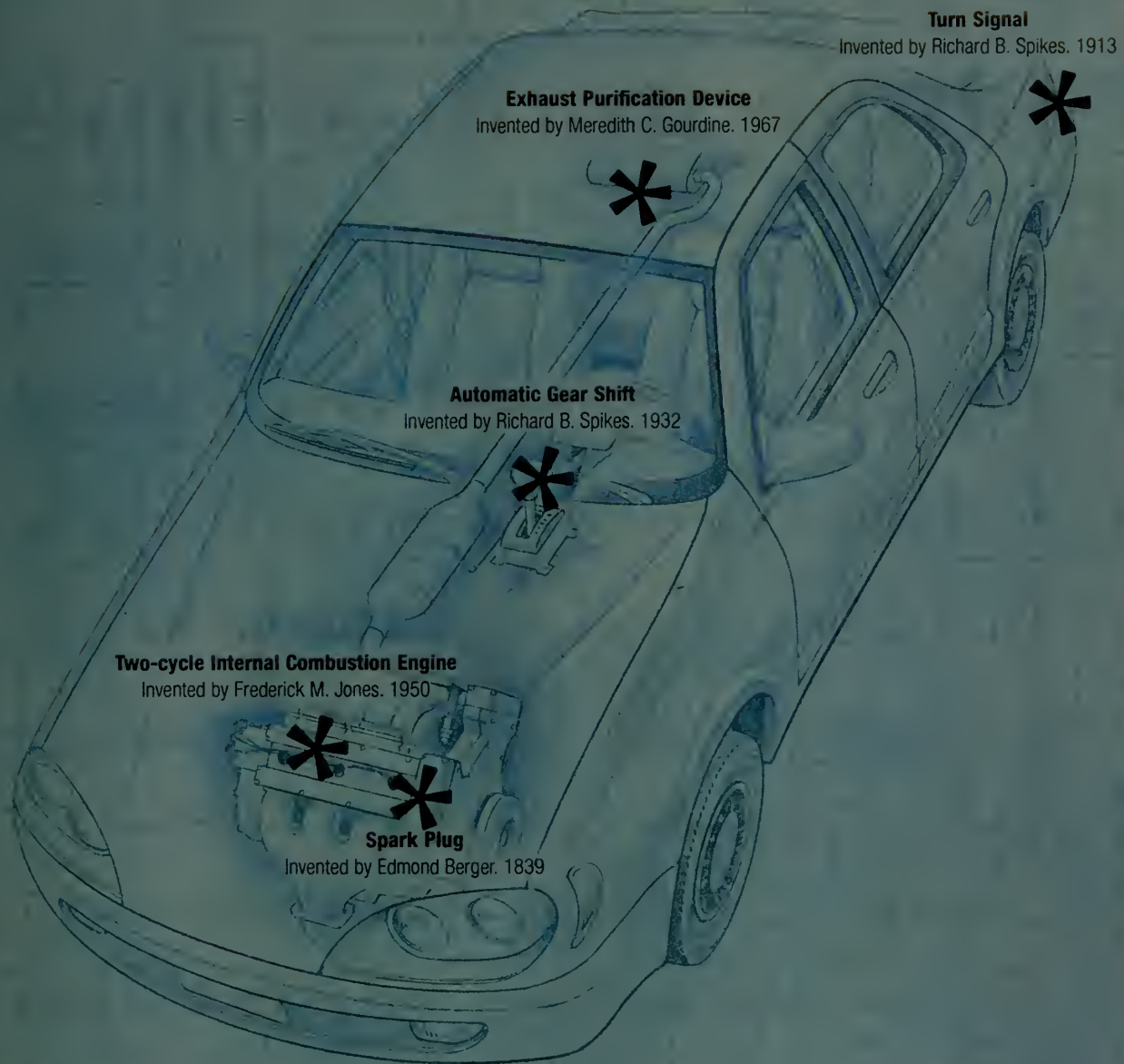
BURWICK: Playing a risky niche game

out an innovative campaign with Universal Music Group: Pepsi premiered songs by Universal artists Sev and Papa Roach in a commercial, then made longer music videos for the studio's use. "It used to be TV, TV, TV," says Burwick. "Now, it's TV-plus."

That logic will extend to Pepsi's most mainstream TV time slot, the Super Bowl. Pepsi will use three of its five ad spots for new products. Sierra Mist, just rolling out, will get two, and Pepsi Twist will get another (with an ad for spring rock paterfamilias Ozzy Osbourne). Only one will go to an established brand: Diet Pepsi. To get more bang for one of the Sierra Mist ads, Pepsi let consumers preview and vote on two versions of the ad online, with Pepsi promising to use the more popular one.

Of course, playing the niche-marketing game is full of risk. The new drinks may siphon off customers from the core brands. Code Red, for example, generated a quarter of its volume from existing Dew drinkers. Then there's executive caution. The last time Pepsi embarked on a product frenzy, a decade back, it brought out Crystal Pepsi, Pepsi Next, and Pepsi Max—all expensive flops. Burwick, though, shows no signs of reverting. With flagship Pepsi stalled, he has little choice.

By Gerry Khorman
in Purchase, N.Y.



There's a part of black history
in every automobile.

Toyota recognizes that African American automotive inventors have always been a big part of our success. That's why we sponsor the Los Angeles Urban League Automotive Training Center. Because our past is the blueprint for our future.



 **TOYOTA**

Once upon a time,
there was a company that was
stuck. Frustrated. They were working
in isolation. Unconnected. So, they bought an
Elixir of Business Knowledge. With just one gulp,
they'd get unstuck. With another sip, they'd know how to link
process to process. Guys who were once lost in the old ways, suddenly would know
how to streamline things. Get people and products together. There was nothing they
couldn't know. *On demand*. But, the liquid was past its shelf life and didn't work.

AND THAT'S WHEN THEY CALLED IBM.

In the *on demand* era, you must know how to connect every department and person
in the value chain. Know how to "sense and respond." These are the areas where
IBM Business Consulting Services is focusing its attention. They can analyze and
rebuild processes to unlock value. On budget. Without elixir. Visit **ibm.com/ondemand**



IBM

@ business on demand

SALVATION FROM THE SHOP FLOOR

The Steelworkers' Leo Gerard is on a rescue mission

Leo W. Gerard is finally getting his way. Ever since he took over as president of the United Steelworkers of America (USWA) two years ago, Gerard has been banging the drum for industry consolidation, arguing that the nation's steel companies have become too small to survive in today's global market. He even tried to play behind-the-scenes matchmaker, first urging U.S. Steel Corp. to scoop up LTV Corp. as it went out of business in late 2001, and then Bethlehem Steel Corp. as it limped along in bankruptcy in 2002. No deal happened, though—until now.

On Jan. 7, International Steel Group Inc. (ISG), a new entity that bought LTV's assets last spring after U.S. Steel hesitated, offered \$1.5 billion for Bethlehem's assets, to form the No.1 producer in North America. Two days later, U.S. Steel did ISG one better, announcing a proposal to pay \$950 million for most of the assets of bankrupt National Steel Corp. The plan would create not only an even bigger U.S. producer but also the world's fifth-largest steel company.

The new deals may well rescue the long-suffering U.S. steel industry, which has been sliding toward extinction. Together, the two buyers would control 35% of the U.S. market, enough to stand up to big customers and suppliers on pricing. They also would have the broader product lines and higher pro-

ductivity needed to stand up against giant rivals in Europe and Asia. That should save at least some of both companies' high-paying union jobs, which is why Gerard has been pushing mergers so hard—and is willing to give historic concessions to make them happen. The consolidation "improves the prospects of having a U.S. steel industry for the next 50 years," says Bethlehem CEO Robert S. "Steve" Miller Jr. And he gives Gerard much of the credit: "His willingness to step up and do what has to be done for the survival of the industry is truly noteworthy."

In fact, Gerard is probably the only person in a position to pull it off. Knowing how close to a shutdown many steelmakers are, he has put into motion a drastic industry restructuring almost entirely on the backs of his members (table). He is allowing the merged companies to dump most of the enormous pension and retiree health-care costs that weigh down an industry with 600,000 retirees—and only 124,000 active workers. It's the ultimate irony that after a long history of bitter clashes with management, it has taken a labor leader to salvage what's left of Big Steel.

A gregarious bear of a man, Gerard also is permitting companies to shed thousands of steelworker jobs and do away with long-standing work rules. Now the new companies will be able to



match or even top productivity levels anywhere in the world. A hard sell for USWA members? Perhaps, but it's better than the loss of even more jobs and retiree benefits, argues Gerard. "I don't want to accept that some folks are going to get sacrificed," he says. But "we're not going to be able to sustain all retiree benefits. It keeps me awake at nights."

In many ways, Gerard, a 55-year-old Canada native, has been managing an orderly retreat since 1985, when he was elected director of the union's Ontario district. Even then, the young leader recognized that North American steel companies had to become ever more productive to compete against low-cost and subsidized mills overseas.

Gerard proudly cites what has happened at Inco Ltd., where his father, Wilfred, was a nickel miner and union organizer and where Gerard got his first job out of high school in 1965. Over the past 25 years, employment at Inco's operations in Sudbury, Ont., has fallen from 13,600 to 3,400. "Hardly anybody works in the smelter and mines anymore," Gerard says. But hourly wages remain high, and rank and file, represented by the USWA, are entitled to profit-sharing. "We've negotiated very strategically," he adds.

In LTV's case, Gerard has given more concessions than ever before. After failing to interest U.S. Steel in rescuing the Cleveland-based company, Gerard turned

HOW LABOR CUTS MAY SAVE THE STEEL INDUSTRY

Working with the United Steelworkers, new owners are fundamentally restructuring costs at Bethlehem Steel, LTV, and National Steel

LINE ITEM	2002	2003	COMMENT
EMPLOYMENT	29,000	19,750	Large buyouts planned at Bethlehem and National. LTV is already down to 2,750, from 7,500.
PRODUCTIVITY*	2	0.9	Payroll cuts and new work rules have doubled productivity.
PENSION LIABILITIES	\$2.9 billion	\$0	Picked up by the Pension Benefit Guaranty Corp.
RETIREE HEALTH	\$4.4 billion	\$0	Retirees would be on their own pending new defined-contribution plans linked to profits.

*Man-hours per ton at LTV

Data: BusinessWeek



SACRIFICE

Gerard is giving up retiree benefits that have choked the mills

buying only LTV's physical assets, leaving behind a shell company that retained the obligations to the company's 70,000 retirees and dependents. He also promised to hire back laid-off workers based on seniority and to negotiate a new union contract. Gerard agreed, and the deal went through last April.

The LTV shell has essentially been liquidated as expected—leaving retirees with no health insurance. They and active workers also have greatly reduced pensions that now are the obligation of the federal Pension Benefit Guaranty Corp.

Since then, the deal has become the industry standard. At Bethlehem, ISG is demanding the same terms from the union so it can avoid \$2 billion in retiree

health-care costs. U.S. Steel also has structured its takeover of National Steel as a purchase of assets only, cutting out 35,000 retirees and dependents.

Gerard doesn't like any of this but is convinced he has made the best move. At ISG, for example, 2,750 LTV employees who would all be unemployed today have been rehired. They make up to \$20.50 an hour under the union's new contract, the highest rate in the industry, plus profit-sharing. The pact also set up a pension for new employees and a trust fund, based on future profits, that eventually could replace at least a small part of current retirees' lost health coverage.

ISG's model may be the only way to make the U.S. industry competitive. With declining payrolls, unburdened balance sheets, and greater economies of scale, ISG and U.S. Steel should be more profitable. Gerard hopes they might even earn enough one day to restore retiree benefits. So far, he has saved at least some of his members from losing everything. But the winner's circle has never been smaller.

*By Michael Arndt
in Pittsburgh*

York financier Wilbur L. Ross Jr., had been on the union's backup list thanks to his interest in bankrupt companies (below). Ross told Gerard he would make money restarting LTV's mills, only if he didn't have to assume \$2.3 billion in retiree obligations helped drag LTV under. To escape those debts, Ross proposed

retirees with no health insurance. They and active workers also have greatly reduced pensions that now are the obligation of the federal Pension Benefit Guaranty Corp.

Since then, the deal has become the industry standard. At Bethlehem, ISG is demanding the same terms from the union so it can avoid \$2 billion in retiree

WILBUR ROSS: PULLING LTV OUT OF THE SCRAP HEAP

A year ago, the only steel assets Wilbur L. Ross Jr. owned were a Chrysler Cherokee and a Mercedes-Benz. Today, thanks to his trailblazing effort with United Steelworkers President Leo Gerard, the New York financier is emerging as one of the most influential steel executives in decades.

A storied contrarian who made a fortune investing in bankrupt companies such as Texaco and Fruit of the Loom, Ross didn't buy his first steel property until last April. That's when he snapped up the idled mills of bankrupt LTV Corp. for \$262 million through his private-equity firm, W.L. Ross & Co. At the time, the industry was in pell-mell retreat: Done in by dirt-cheap imports, nearly half the nation's mills had gone bust, including three of the top five. Assessing Ross's chances, one industry veteran quipped: "It's Farmer Jones with baling wire and bubble gum."

Yet within a month, Ross and his partners were rehiring laid-off work-

ers at what had been the No. 4 steel producer in the U.S., the renamed International Steel Group. Now, the ISG chairman is close to his biggest deal yet: a \$1.5 billion bid for the assets of Bethlehem Steel Corp., which has been in Chapter 11 since October, 2001.

How did he pull it off? Part of it is timing. Ross, 65, who honed his restructuring skills through 24 years at investment bank Rothschild Inc., negotiated to buy the LTV mills just before President Bush set tariffs that squeezed out foreign suppliers. He also set up his deals to shuck most of the predecessor

CONTRARIAN
The next deal for Ross may be Bethlehem Steel

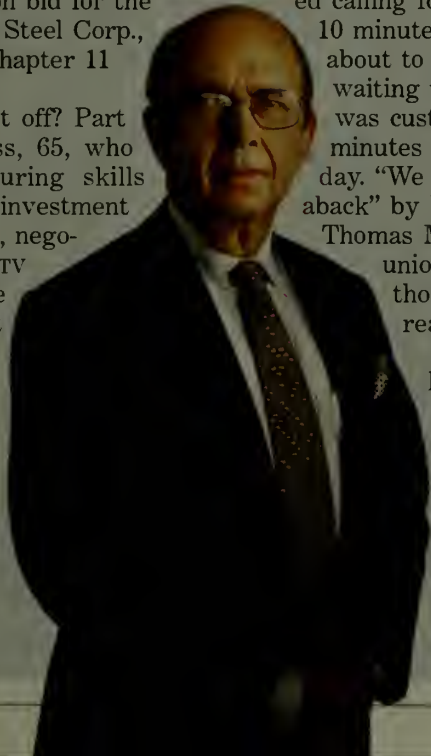
companies' debts, lowering ISG's breakeven point.

Ross brings an outsider's approach to management. Today, ISG has just 22 executives; LTV had more lawyers than that. Beyond payroll savings, the cuts have shifted more responsibility to the shop floor, which, in turn, has yielded productivity gains. Ross says that mill workers suggested calling for new slabs of steel

10 minutes before a run is about to end rather than waiting until it had ended, as was customary. That adds 30 minutes of extra output a day. "We were frankly taken aback" by Ross's attitude, says Thomas M. Conway, a veteran union negotiator. "We thought, 'Is this guy for real?'"

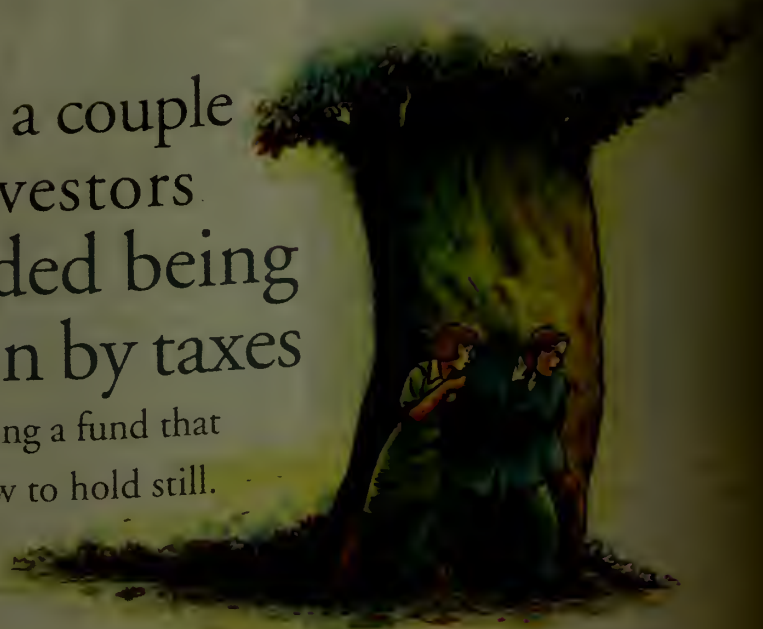
The bottom line: Even with a well-paid union workforce, ISG has lifted productivity close to the levels of nonunion Nucor Corp. Not bad for wire and gum.

*By Michael Arndt
in Pittsburgh*



How a couple of investors avoided being bitten by taxes

by choosing a fund that
knew how to hold still.



When comparing mutual fund tax advantages, how a fund is managed can make a big difference. What should you watch for? A high turnover rate.

Aggressively managed funds that are constantly adjusting their positions turn over a lot. And all that turnover can mean higher taxes.

Tax-managed funds, on the other hand, stay the course to keep turnover low. Which can make for less churning in your stomach around tax time.

If smaller bites sound better, call us at 1-800-962-5153, or visit us at Vanguard.com.®

We can help.



THE Vanguard GROUP

Invest in our way of investing.

1-800-962-5153
www.vanguard.com

BusinessWeek

Investor

JANUARY 3, 2003

MAKING LIFE RICHER

FIGHTING BACK

HOW TO
LOWER YOUR
PROPERTY
TAXES

PAGE 106

RESEARCH 108

Conflict-Free
Stock Reports

TRAVEL 110

The Summer
Rental Market

BARKER 113

Advice for the
New SEC Chief



Your business.
Your needs.
Your choice.

It's high time someone in the software industry started listening to your needs. And standing up for your rights. Like the right to have month-to-month licensing. And the right to no upfront payments. That's why we offer FlexSelect LicensingSM to all our customers. This revolutionary approach to licensing is based on doing business on your terms, not ours. So you can have just the software you need just when you need it. Check it out today. And find out how FlexSelect Licensing is raising more than just eyebrows in the software industry. It's raising standards.

ca.com/flexselect

Introducing FlexSelect LicensingSM



Computer Associates

Dividends

tips,
tidbits &
more

EDITED BY
TODDI GUTNER

THE STAT

17

NUMBER of trading days in 2002 in which the Standard & Poor's 500-stock index moved 3% or more. There were seven such days in 2001, 11 days in 2000, and just one in 1999.

Leuthold Group

ME OFF



DESSERT BASIS

luxury sweets in downtown N.Y.

alcoholic alert. Indulge yourself at the all-you-can-eat chocolate bar on the 17th floor of the **Ritz-Carlton** in New York's **Midtown Park**. For \$25 per person, you can taste desserts and candies, champagne, and enjoy harbor views. Don't miss the *pièce de résistance*: a **monde d'acquoise** peanut crunch white chocolate mousse. Open Friday and Saturday nights, Jan. 30-Feb. 1.



STOCKS

Grand Illusions

THOSE WHO EXPECT TO profit by buying stock in a company that has just won an infusion from private investors may be disappointed. So says a recent study, which found that such companies **underperform various stock market benchmarks by 30% to 40% in the three years** following the investment. The study looked at 619 publicly traded firms from 1980 to 1996.

Stock prices do briefly rise in reaction to the announcement of a private placement, says James Linck, assistant professor of finance at the University of Georgia's Terry College of Business and the study's co-author. Over the long run, though, **a private equity placement may be a bad omen.**

One possible explanation could be that private investors usually buy stock at a discount to the open market—and may be paying what the stock is really worth, according to the study. But it's likely that regular investors see the flurry of corporate activity that often follows a private placement and become overly optimistic about the company's prospects, then bid the stock too high. So, think twice about following the “smart money.”

Carol Marie Cropper

TAXES

DEDUCTIVE LOGIC

If you're like most of the 20 million taxpayers who **itemize charitable deductions**, you're clueless as to the fair market value of the clothing, books, and other items you donate.

ItsDeductible software (ItsDeductible.com) can help. \$29.95, or \$19.95 as an add-on to Turbo Tax.

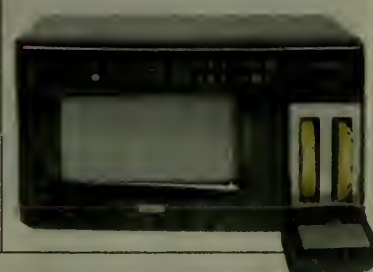
ITEM	CONDITION		
	GOOD	FAIR	POOR
DESIGNER WEDDING DRESS	\$300	\$110	\$75
BABY STROLLER	125	87	19
BREAD MAKER	35	24	5
ELECTRIC TYPEWRITER	25	16	6
SILK TIE	6	4	1

Data: ItsDeductible

GADGETS

ZAP 'N' BROWN

Sears designed the **Kenmore Toast 'N Wave** for apartments and dorm rooms, or anyone with kitchen-counter clutter. Controls for the 0.9-cu.-ft. microwave are across the top, making way for a two-slice toaster on the side. The **\$130** spacesaver has wide toast slots, big enough for bagels.



Taxes Going Through The Roof?

Your house may be unfairly assessed by the local authorities. **BY SUSAN SCHERREIK**

FOR MANY homeowners, the local property-tax bill will arrive in the next few weeks. Sit down and take a deep breath before you open it, because it may shock you. The National Taxpayers Union, a nonprofit advocacy group in Alexandria, Va., expects an average increase of 10% nationwide and 20% to 30% gains in some spots in already high-tax states such as New York, New Jersey, and Connecticut.

In part, the soaring bills are the downside of the real estate boom and higher property values. The rest you can blame on the recession, which has forced state governments to cut back and foist more costs on municipalities.

Take heart: You can fight back. You're not going to knock down the tax rate. But if you can show that your assessment is too high, you're likely to win a tax-bill reduction that can amount to hundreds or thousands of dollars a year. And making a case isn't so hard. That's

because experts say there could be errors in the information that the authorities used to calculate the assessment of the property. "When appraisers come to visit your house, they often don't have time to make an adequate inspection," says James Lumley, author of *Challenge Your Taxes: Homeowner's Guide to Reducing Your Property Taxes* (\$19.95, John Wiley & Sons Inc.).

If you're not at home when the assessors visit, they might simply peek in the window or drive by the property. In larger jurisdictions, assessors often rely on computer records of past assessments and new improvements. Also, appraisers can assume houses with similar exteriors contain the same number of bedrooms and bathrooms. Such mass assessments take a lot for granted.

Common mistakes are goofs in the house's square footage, listing five bedrooms when you have three, or including improvements you lack, such as a finished basement. Ron Napier, a real estate consultant in Oak Park, Ill., says he often finds errors for houses built 75 years or more ago. That's because such dwellings, while varying greatly

in style, can be lumped into an "old home" category.

CONSIDER THE NEIGHBORS

Even if the assessor got everything right, you may be able to get your assessment lowered if you can prove similar properties carry lower values. That strategy worked for James Lucas of Arlington, Va., who took action last year after the assessment on his three-bedroom condo—as well as his tax bill—shot up 40%. Although adjacent homeowners saw similar reassessment hikes, Lucas reviewed neighborhood assessments on Arlington's Web site and

APPEAL YOUR ASSESSMENT:

You might be able to reduce your property-tax bill...



If your house has flaws—water in the basement, **cracked foundations**—or if it's on a busy street



SITTING PRETTIER:

The Lucases of Arlington, Va., got their condo's assessment knocked down

set each year by local elected officials or popular vote.

Your property's assessment is supposed to reflect its fair market value at a certain time. Here's where it gets tricky. Many local governments reassess properties only every three to five or 10 years. Typically, reassessments are based on recent selling prices of similar houses. In the interim, the assessment may remain constant, and reflect only a fraction of market value. So a house worth \$800,000 might be valued at \$500,000.

In other cases, the jurisdiction might add, say, a 6% hike to your annual assessment based on how much real estate prices climbed in your neighborhood. To add to the confusion, some states, such as California, limit property assessment increases except when a house is sold. (In California, the cap is 2% a year.) Even if your assessment doesn't change this year, your bill will rise if the tax rate does.

Typically, property taxes amount to 1% to 2.5% of your house's value.

Homeowners can usually challenge tax assessments at any time. But they tend to do so when a reassessment is done because that's when valuation can change dramatically and when errors in property description might have been made. (If you've had a recent reassessment, you'll probably get your notice in late winter.) The notice includes a

detailed property description. Otherwise, you can obtain a description from the assessor's office or online.

After checking the property description for errors, look at assessed values of similar houses in your neighborhood. Even if there are no big differences, you might be able to argue for a lower assessment if your home has defects such as a cracked foundation or water in the basement. Or perhaps your house fronts on a busy street, or your high-rise condo's view is less spectacular than that of your neighbor's. You might also want to hire a certified appraiser to provide an independent valuation. Appraisers charge \$200 to \$500.

WHERE TO TURN

A terrific resource is a local taxpayer's advocacy group. These organizations can give you practical tips and let you know your odds for winning an appeal in your area. Mike Sessa, the chairman of the Macomb County Taxpayers Assn. in Harrison Township, Mich., says he has assisted thousands of homeowners with appeals in the past 25 years.

If you think you have a legitimate case, call the assessor's office. The assessor may simply visit your house and make a decision. More often, you'll need to fill out paperwork to lodge an appeal or schedule a hearing with the appraiser. If you get turned down or are unhappy with the reduction, you can make your case to an appeals board. Your last resort is the appropriate court in your jurisdiction.

Remember, many local authorities give you only 30 days to 45 days after the reassessment to appeal if you want any reduction to apply to the current year's taxes. If you lack the time or desire to protest on your own, you can hire a real estate consultant to conduct the appeal for you. Typically, you pay a consultant only if you win. The fee might be 25% to 50% of your first year's tax savings.

Appraising a property is as much art as science. So there's room for you to persuade appraisers that they've erred. After all, no one knows your real estate—warts and all—better than you. ■

property description
usually lists features
work, such as an
and pool or **central**
conditioning



If similar properties
in your immediate
neighborhood
are **assessed for**
much less



If your assessment is
the same as your
neighbors' but your
house **lacks**, say, their
breathtaking views

Research Revolution

Six top stock-research firms—all free of investment-banking pressures—are banding together while retaining their unique spins **BY LEWIS BRAHAM**

YOU KNOW those lengthy analyst reports your broker gives you, the ones that always scream “buy” on the cover. Get ready for some that say “sell.” As part of the settlement with New York State Attorney General Eliot Spitzer, big Wall Street houses will have to supply clients with stock reports from at least three independent research firms to supplement their own. And such firms, free of investment-banking conflicts, are more likely to dole out sell recommendations.

Which independents will the brokers hire? One likely candidate is **Best Independent Research (BIR)**, a new consortium of six independent research firms formed in December. Since many independents are small operations, often with just a handful of employees, Thomas White, president of BIR, thinks banding together will give the group the leverage it needs to attract brokerage clients. Until this point, BIR's firms have sold their research exclusively to professional money managers for upwards of \$10,000 a year. The wirehouses should announce which research firms they'll be working with in the next six months, White says.

QUANTS RULE

White has been careful in selecting his group's members. Using a database created by **Investars**, a company that tracks the performance of research firms' stock picks, White chose only firms that cover at least 500 stocks and that ranked in the top group as a result of their buy and sell ratings. (Investars considers a sell rating as a short position for performance purposes.)

The breadth of stock coverage was as important as performance. “If you're going to distribute your research to Merrill Lynch, you can't cover only 30 stocks,” says Kei Kian-poor, Investars' chief execu-

tive. “You've got to offer your opinion for each stock Merrill covers.” Investars tracks 140 research firms, but only 30 cover more than 500 stocks. All six BIR members rank in the top 10 in this group over the past year for their stocks' returns and the top 15 over the

past three years. During these two periods, no major brokerage house was any BIR firm, and the only independent to have a performance edge was Standard & Poor's (like *BusinessWeek*, a division of The McGraw-Hill Companies) which held both No. 1 slots.

PICKS AND PANS FROM AN INDEPENDENT A-TEAM



cause of their small staffs, BIRs all computerized quantitative analysis of thousands of stocks. At White's Chicago-based **Global Capital Institute**, his analysts emphasize sectors in their ratings, examining different strategies for a company depending on its industry group. With retail stocks, for instance, they screen for strong balance sheets with little debt. "The retail sector has produced more bankruptcies than any other sector in the past 100 years," says White. Too much debt and declining consumers are the main reasons. Among retailers, White favors Abercrombie & Fitch because it has no long-term debt and has plenty of cash on its balance sheet. He dislikes Kohl's because its earnings growth has become

sluggish, estimates upward, and its stock is outrunning other software makers'. Since valuation is a better indicator for media companies, Columbine also rates troubled Vivendi Universal a buy.

VARIATIONS ON THEMES

Three of the other BIR firms, **Ford Equity Research**, **Callard Asset Management**, and **Channel Trend**, employ variations on these themes. Ford Equity also uses earnings momentum, price momentum, and valuation to rank stocks, but unlike Columbine, does not change the weightings to suit the sector. Callard has two separate rating systems based on valuation and price momentum. BIR currently distributes only its price-momentum system. Channel

All five of these firms rank stocks on a continuous scale on their relative attractiveness to each other, so there will always be a certain percentage of buys, holds, and sells. The sixth firm, Seattle-based **Market Profile Theorems**, looks at the overall attractiveness of the entire market as well as individual stocks. So there are times that it will have no buys or no sells if the market looks particularly bad or good. In addition to valuation and momentum measures, the firm studies the trading of insiders working at companies to see if they are buying or selling shares (BW—Oct. 7). These insiders often act as a "contrarian indicator" when the market has beaten down or overvalued a stock, says research director Michael Painchaud.

Asset ment	Channel Trend	Columbine Capital Services	Ford Equity Research	Global Capital Institute	Market Profile Theorems
Chemical ies (ICI) s negative momentum, volatile weak stocks e most on another valuation. b (ECL) s positive n, but in t, strong weak bounds. tion n't it.	BUY Motorola (MOT) Reason Shares are below their 200-day average, and though declining, they are falling at a slower rate. That deceleration indicates that the stock will soon rise. Valuation is low. SELL CMS Energy (CMS) Reason The stock is above its 200-day average and starting to decline. Sales are declining, too.	BUY Oracle (ORCL) Reason Upward revisions in earnings estimates and strong price momentum. Valuation is high, but that's not significant in the tech sector. SELL Analog Devices (ADI) Reason Downward earnings-estimate revisions, below-average price momentum, and poor short- and long-term earnings growth.	BUY Forest Laboratories (FRX) Reason Earnings grew 54% in the past 12 months. Price momentum is strong, too. SELL Bristol-Myers Squibb (BMY) Reason Earnings fell 34% in the past 12 months, the company is facing antitrust litigation, and the stock has negative price momentum.	BUY Abercrombie & Fitch (ANF) Reason Great balance sheet: no long-term debt and lots of cash. Trades at a low p-e ratio and is buying back stock. SELL Kohl's (KSS) Reason Company is growing fast, but it's financing that growth through debt and stock issuance. The stock trades at a high p-e and high price-to-book ratio.	BUY Rite Aid (RAD) Reason Has positive earnings surprises, beating analyst estimates by 60% in its most recent quarter. Insiders are buying shares. SELL American Greetings (AM) Reason Earnings expectations have been declining in the past two months, and insiders have been selling shares.

dependent on debt and equity issuance. Another BIR firm, Colorado Springs-based **Columbine Capital Services**, employs a sector model as well, but with a twist. While White's analysts focus only on stats relating to a company's fundamentals, such as its valuation and earnings growth, Columbine adds analysis of a company's stock-price movements, or "price momentum." Depending on the historical behavior of a sector, the firm will weight price momentum more or less heavily in its ratings. With the tech sector, price earnings momentum have been significant predictors of future performance than valuation stats. So even though software maker Oracle is pricey, the firm rates it a buy because Wall Street analysts keep revising their earn-

Trend's Price Projector Model uses price momentum and something called "reversion-to-the-mean" analysis.

It is precisely these variations that make each firm unique. For instance, though Callard generally looks for stocks with positive price momentum, it switches gears when market volatility is high. Then it searches for laggards. "High volatility levels often indicate a trough in a bear market," says Ricardo Bekin, Callard's chief information officer. "That's when stocks that have been beaten down the most snap back." Channel Trend also looks for market outperformers, but in a different way. A stock can earn a buy rating if it's rising from a low point heading toward its average price—or, reverting to the mean—for the past 200 days.

White's ultimate goal for BIR is to have all six firms' research distributed as a package to brokers. Brokers and their clients will use BIR's Web site, Bestindependentresearch.com, to examine how each firm's ratings performed for any stock the group covers and compare it with the broker's track record with the stock. That way, the client will be able to choose the rating from the firm that has the best record with, say, Intel or Microsoft.

Will independent research from BIR and others change investors' fortunes? Not necessarily. There are a lot more factors that go into successful investing than a buy recommendation. Still, investors who act on these ratings can have some assurance that those who issue them have their interests at heart. ■

The Skinny On Summer Rentals

In many desirable areas, prices may well be lower than in seasons past. But you'll have to act quickly to lock in the choicest properties. **BY JULIA COSGROVE**

CHILLY WEATHER got you down? Think summer—and line up a vacation rental. After last year's soft season, Vacation Rental Managers Assn. (VRMA) Executive Director Michael Sarka anticipates a slight uptick in bookings in 2003. That said, about a third of vacation-property managers and real estate agents urged landlords to lower rental prices or keep them on par with last year's, according to the VRMA. Those who are raising prices have held to average 3.5% increases.

Don't wait long to book. By March or April, the most desirable properties are taken. To find what's available, we surveyed six areas that offer a selection of weekly rentals. ■ **Cape Cod, Mass., and the Islands:** With its quaint historic villages, this Atlantic peninsula epitomizes summer. In Falmouth, the Cape's second-largest town, the most highly prized rentals are Victorian homes close to the water. A large beachfront manse goes for \$8,400 a week, while the budget-minded can find an in-town condo for \$700. Dennis Murphy, owner of Donahue Real Estate, raised rental prices last summer, and his occupancy rates were up 10% over 2001. But 2003 is looking slightly softer, he says. Other Cape communities to consider are Chatham and Wellfleet.

Prices on islands Nantucket and Martha's Vineyard are higher, says Ken Beaugrand, president of Nantucket Real Estate. He says the average Nantucket renter will shell out \$4,000 a week for a three- or four-bedroom house within a short walk or bike ride to the beach. Bargain hunters will find lower prices in the shoulder seasons of June and September. If you're



SAUGATUCK MICH.:

The beach (above) and public bathroom (left) with its Seur style mural

bringing a make ferry r vations soon

■ **Hatteras Island, N.C.:** Known for its warm weather and 19th century lighthouse, Hatteras is a low-key alternative to the bustling northern Outer Banks, with rentals ranging from \$750 to \$7,000 per week. This 80-mile barrier is 70% of which is owned by the National Park Service, has movie theater, one supermarket, and little nightlife. Midgett Realty property manager Beth Midgett: "You can get a good stretch of time and not see any development."

■ **Saugatuck, Mich.:** A former artists' colony on Michigan's 2½ hours from Chicago, this historic town of families waterfront art galleries and restaurants. Saugatuck says Mill Pond Realty property manager Laura Durbin "doesn't like growth or high-rises" and offers summer movie theater and a chamber music festival. Business is looking good for 2003, with weekly rates from \$700 to \$2

COAST TO COAST:

Three ways to get wet



This three-bedroom, three-bath house in Sea Ranch, Calif., is available through Rams Head Realty



Windermere Real Estate offers this three-bedroom, three-bath home with a tub and deck on Sanibel Island, Fla.

\$2,148
PER WEEK

\$2,700
PER WEEK

Durham has already booked 70% of her properties, but homes with Lake Michigan beachfront are still available.

■ **Breckenridge, Colo.:** This Rocky Mountain mining town turned ski village is two hours west of Denver and offers the beauty and diversity of nearby Vail with less glitz and expense. In Breckenridge, a modern, five-bedroom home with mountain views, a hot tub, and a short walk to Main Street goes for \$2,300 a week.

Hiking and kayaking are popular, as are riding the ski gondolas and biking down the snowless slopes. "People tend to be outdoorsy here," says Heidi Eilers, an agent at Bighorn Rentals. A 20-minute drive from Breckenridge, Silverthorne is a cheaper alternative, with rents starting at \$1,000.

■ **San Juan Islands, Wash.:** This chain of 172 islands in Puget Sound is a nature-lover's paradise.

Arlene Dunning, co-owner of Windermere Real Estate, manages 65 rentals on three islands—Orcas (the largest and best, with splendid scenery), San Juan (with boutique streets and top restaurants), and Whidbey (where antique shops meet sandy beaches and rhododendron gardens). Dunning says a trip to the San Juans "is like stepping back in time." And slow demand has forced landlords to lower rents on high-end properties. Dunning's rentals range from a tiny lakeside studio apartment over a garage (\$625 a week) to a 70-acre, two-bedroom mountaintop estate that comes with horse stalls, original artwork, a hot tub—and a \$1,000-a-week price tag. That's \$1,500 less than last summer, when it didn't get rented.

■ **Sea Ranch, Calif.:** This quiet coastal community about 90 miles north of San Francisco abides by the philosophy that homes should blend in with their surroundings—a mix of jagged cliffs, grassy meadows, and forests. Judy Barri, co-owner of Rams Head Realty, says cliffside homes overlooking the ocean are the most expensive (around \$3,000), while cabins in the forested area start at \$600. But unlike the San Juans, Sea Ranch is seeing higher-end homes fill up faster than those in the lower range.

How do people entertain themselves here? Besides outdoor pursuits, they can drive north to Mendocino, a town with such East Coast flavor that Hollywood uses it as a stand-in for New England locations. Barri says "the biggest activity is you don't have to do anything." Now that sounds like a summer vacation. ■

\$2,000
WEEK IN JULY

This Nantucket house, near surf-side beach, has three bedrooms and three and a half baths. It sports a deck, patio, and water views.

SUPER SMALL:
The Nomad MuVo is easy to use



The ABCs Of MP3

So much music in so little space—and soon, easy video, too. **BY CLIFF EDWARDS**

IF A QUICK GLANCE around my gym has any indication, Apple Computer's sleek **iPod** remains the undisputed king of the digital-music-player market. Every few feet, I notice the telltale white headphone cords leading to an iPod clipped on a belt or a pocket.

For the uninitiated, digital music—or MP3—players let you download audio files you've stored on your PC. You can mix and match your tunes any way you want, then carry them with you. The standard used to be devices that looked and worked like a portable CD player except they could decode the compressed MP3 files. Today, other types have become more popular, largely because their smaller size makes them more convenient to carry.

Players such as the iPod, about the size of a deck of cards, have their own hard drives for storing music files. They have enormous capacity—the iPod can store up to 4,000 high-fidelity tunes—but they also have equally enormous price tags, starting at \$300 and going as high as \$500. Their batteries are built-in and can last as long as an impressive 12 hours before requiring a recharge.

Even smaller models—some as tiny as an inch on a side—store songs on built-in memory chips or removable cards, similar to the way a digital camera stores snapshots. At around \$150 or so, they're

SPORTING NEWS:

The Rio S35S is an athlete's best friend



relatively cheap. But they typically hold only a CD or two's worth of music, and the cost of owning one creeps up when you have to shell out \$50 or more for extra memory, not to mention replacing their throwaway alkaline batteries.

In the hard-drive category, the best choice remains the iPod. Even after nearly two years on the market, it still wins hands-down because of its simple, intuitive interface, elegant styling, lightning-fast download speed, and great sound. And Apple really sewed up the market in August when it began selling ones that work with Windows-based computers in addition to Mac-only versions. Apple sells 5-gigabyte (\$299), 10-GB (\$399), and 20-GB (\$499) models. If you're into music and can afford it, buy the bigger size. I found myself quickly filling up the smaller hard drive.

If you want a little more versatility, try Creative's **Nomad Zen**. This 20-GB iPod look-alike sells for \$299 and has similar features, but it can hook up to either a Mac or a PC. (You have to choose one or the other with the iPod unless you buy special software.) You also can organize your songs into playlists directly on the Zen instead of doing it on your computer before loading them into the player. But the Zen lacks the intuitive operation that has made the iPod so successful, and Creative's software lags in ease of use compared with Apple's iTunes software for Macs and the popular MusicMatch software included for use with many Windows-based players.

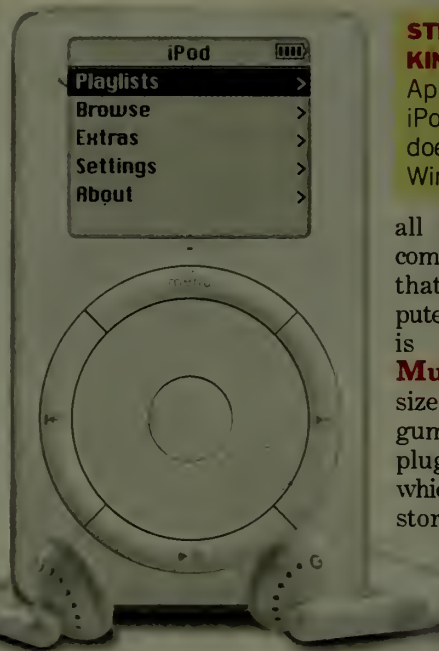
For neophytes, the biggest drawback of MP3 players is mastering the software that lets you transfer songs from your PC. The iPod, for instance, is easier to use with a Mac because they

Battery-run players cost half of those with hard drives. But they hold so little that with the memory add-ons you'll want and all those batteries you'll need, the savings evaporate

share the same music software. With PCs, different manufacturers use different music software and, if you have an older computer, you may even need to buy and install a universal serial bus (USB) or FireWire card that allows faster downloads.

The next generation of hard-drive players, due out this spring and summer, should be much easier to use. And they'll have some nifty new features. You'll be able to take songs directly from a

COMING IN JULY: The Lyra will record directly from your TV



STILL THE KING: Apple's iPod now does Windows

CD player, example, passing to completely. Meanwhile, if you're all uncomfortable around computers, look for a player that connects to the computer's USB slot. My favorite is Creative's **Nomad MuVo** (\$130-\$160). The size of a pack of chewing gum, the MuVo simply plugs into the computer, which sees it as an external storage device, much as it recognizes a digital camera. Then you just drop music in it the same way you

move document files between folders, and off you go. The downside? With a maximum memory of 128 megabytes, the MuVo holds only about 30 songs. I also missed having a display that says what's playing, or that I can scroll through to find out what's up next on my playlist.

Another good choice is SONICblue's **Rio S35S** (\$180), which packs a load of features into a tiny package. Built for the sports enthusiast, it has a rubberized grip to help keep from slipping out of sweaty hands. It comes with 128 MB of memory, good for up to 10

hours of music, or four hours in a lower-quality mode. You can double that by picking up an extra memory card for about \$40. The S35S also includes a stopwatch and FM tuner, and its single AAA battery lasts for about 15 hours of play.

If you're really looking for cool, wait a few months. A new category this year will be "media players" or "portal entertainment consoles." They will download video as well as music. Load up your favorite episodes of *The Simpsons* or the movie you've been meaning to watch and take it to the plane. Or fill it with cartoons to entertain the kids on your next road trip.

Right now, the Archos **Jukebox Multimedia 20** (\$399) is the only game in town. It sports a tiny 1.5-inch liquid-crystal display and plays back only video that has first been encoded in one of two different formats on your computer. That means you have to preprocess your video files before you load them, and the download itself takes forever unless you spring for add-ons such as a FireWire adapter (\$50), to speed it up. I'd wait for the next generation. In July, Rio will start selling its \$399 palm-size **Lyra Audio/Video Jukebox**. It has a much more enjoyable 3.5-inch widescreen LCD. Better yet, it includes all the connections you need to record directly from your television—up to 80 hours of shows.

Oh, yes—it plays your music, too. All for the price of today's iPod, and in a package that's not much bigger.

MR. DONALDSON, MEET GUSSIE AND MARK

BY ROBERT BARKER rb@businessweek.com

SILVER EMINENCE tapped to become the Securities & Exchange Commission's 27th chair- is a towering figure. With vast experience on Wall Street, in Corporate America, academia, the military, philanthropy, and even Washington, William Donaldson has rolled up his sleeves and dug into most every important field of American life. At any other

time in history, his nomination to lead the SEC would have gone unquestioned. Today is different.

For all his achievements, Donaldson comes up short in one key way: direct service to investors on Main Street. These are American capitalism's strength, yet today many find themselves abused and powerless to do much about it. In that Donaldson will focus his considerable powers on securities that have driven so many individual investors out of the market and now keep them on the sidelines, I like to introduce him to two everyday investors.

First is 80-year-old Augusta Litwer, whose friends in Seattle call her Gussie. She calls herself a "peanuts" investor. A real-estate office manager, Litwer first got into the market back in 1997 via a monthly investment plan. In 2001, her broker suggested stock in undersea-cable company Tyco, then a public-traded unit of Tyco. She bought 200 shares. Months later, the company moved to buy out Litwer and fellow minority shareholders, and she got 62 Tyco shares. Her broker advised her to sell.

The rest is scandalous history. Dennis Kozlowski, then Tyco's CEO and Tyco's chairman, now faces corporate theft and fraud charges, which he denies. Litwer dumped her Tyco shares last May at a 37% loss on her original investment. She blames herself, not her broker, for not selling sooner. But she can't get over it: how no one, not regulators and not even Tyco's directors, saw anything amiss. Three months ago, the SEC spotted nothing amiss, either, despite months of digging through Tyco's books. "I wrote Kozlowski a letter and asked for a check," she says. "If I'm lucky, he'll end up in jail before he dies." Though the SEC is all over Tyco again, she's not sure the agency will head off problems elsewhere. For instance, she is now selling Citigroup, which she also worries is going together on the up-and-up. Note to Bill Donaldson: Lifting the lid on dividends is not going to revive the market if investors fear getting rooked on stocks.

Then, there's Mark Gottlieb. He is battling a different, but perhaps more widespread, problem. Short of entering arbitration—a process distrusted by many investors as inherently biased against them—how do you get help with a brokerage complaint? A 41-year-old marketing consultant from Little



BURNED BY TYCO:

Retiree Gussie Litwer lost 37% of her investment's value

Ferry, N.J., Gottlieb on Oct. 10 tried to buy 400 shares of utility company Public Service Enterprise Group via his online account at Vanguard Group. The trade never went through. Vanguard told Gottlieb that his order arrived too late to be executed at the price he had specified. Gottlieb suspects Vanguard's software is to blame. What in fact went wrong may forever be lost in cyberspace. Indisputable is that the stock is now up 60%, and Gottlieb figures he should be \$5,400 richer.

Yet to Gottlieb, that's not the worst of it. This is: For all the market watchdogs that he has called, from the NASD to state regulators to the SEC, he is left feeling impotent. "It's my word against the second-biggest mutual fund company in the world. Who wins? They do," he says. "The whole process of trying to get justice is just impossible. The NASD, the SEC, they all just pass the buck. They know that the little guy will probably give up and get discouraged." Memo No. 2 to Mr. Donaldson: Those feeling powerless don't rush to take risks.

In brief remarks at the White House, Donaldson committed himself "to doing everything that I can do to restore the confidence of investors in the U.S. corporate and financial industry." A daunting challenge, and one that he can meet only by relentlessly advocating not for old colleagues back on the Street and in corporate boardrooms, but first and foremost for Gussie Litwer and Mark Gottlieb—capitalism's strength. ■

BusinessWeek online

For an archive of columns, go to www.businessweek.com/investor/ and click on "Columns"



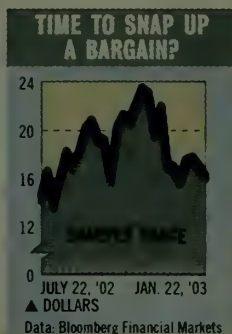
NIFTY GADGETS ARE FLYING OFF THE SHELVES AT SHARPER IMAGE IT'S ALL SMILES FOR BIOLASE TECHNOLOGY'S NEW DENTAL GEAR COMBIMATRIX BIOCHIPS CAN DETECT HAZARDOUS CHEMICALS.

BY GENE G. MARCIAL

A Way Sharper Image

While most retailers posted soggy sales in 2002, Sharper Image (SHRP) had a bang-up year. The specialty shop was firing "on all cylinders," says Roger Lipton of RHL Associates, which increased its stake in mid-December, when Sharper stock hit 15, down from 23 in November. The drop was due in part to rumors that Sharper would issue a secondary equity offering, confirmed on Jan. 8 when it filed to sell 2.5 million shares through a group led by J.P. Morgan and Lehman Brothers—a chance to buy at a bargain, Lipton says.

Sharper, with 127 U.S. stores, is debt-free—so why the need to raise capital? "Sharper sees strong growth of 30% to 40% ahead, and it wants to be financially able to put up more stores and introduce more products," says Lipton. He notes that robust December sales prompted analysts to lift their earnings forecasts. Internet sales surged 67%, to \$18 million, catalog sales leaped 40%, to \$24 million, and retail store sales rose 22%, to \$80 million. Sharper's proprietary items—such as Ionic Breeze air purifiers and Austin Powers pinball machines—have helped the company avoid cutting prices. He figures the stock will double in 12 months, based on his increased earnings estimate of \$1.10 a share for the year ending on Jan. 31, 2003, and \$1.25 to \$1.30 for next year. Kristine Koerber of WR Hambrecht, who rates Sharper a buy, says the stock, now at 16, is attractive at 12 times her fiscal 2003 estimate.

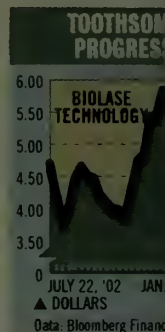


Painless Root Canals, Thanks to BioLase

Little-known BioLase Technology (BLTI), maker of LaserSmile for teeth whitening, has other dental and surgical products that should make investors smile. So says Peter Cardillo, research director at Global Partners Securities, which rates BioLase, now trading at 5.30 a share, a strong buy, with a 12-month target of 13. Global has been buying stock. BioLase's WaterLase Hydrokinetic dental laser, for instance, says Cardillo, works without generating the heat and vibration of high-speed drills. It lets dentists perform procedures such as root canals painlessly and without anesthetic. In 1999, the

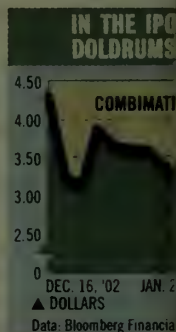
Food & Drug Administration approved WaterLase for dental bone and soft-tissue procedures, he notes—the such system to win this O.K.

Dalton Chandler of investment firm Needham, who rates the stock a strong buy, says the potential for WaterLase is huge. Its average cost is \$40,000, so sales have yet to ramp up. But they are high-margin tools, says Chandler. On Jan. 21, BioLase said it would meet the high end of estimates, thanks to rising demand. Chandler lifted his 2002 earnings estimate from 10¢ a share to 13¢. He still forecasts 34¢ for 2003.



CombiMatrix Is Busy in the DNA Lab

tiny CombiMatrix (CBMX), a developer of bio that perform DNA diagnostics and detect hazardous chemicals, went public on Dec. 16 at share. It now trades at 2.90. But it has attracted drugmaker Roche, the Defense Dept., and Roche has a 15-year pact to commercialize the made-to-semiconductor-based technology that identifies genes, mutations, and proteins. Ivonne Marondel of Gerard H Mattison estimates the deal is worth \$30 million. S Roche has paid \$8.5 million and plans to launch the CombiMatrix products later in 2003. Marondel rates the "outperform," with a 12-month target of 5. She sees C Matrix posting profits in 2006. The Pentagon is after its DNA probes for monitoring chemical and biological agents. CombiMatrix will get \$3.6 million from the 2003 U.S. Defense Budget, says CEO Amit Kumar. In 2002, CombiMatrix got \$1 million to develop a pocket-size prototype of a system for detection of agents such as anthrax and nerve gas. In 2001, NASA signed a pact to buy the biochips for the space station for research on how DNA behaves in space. CombiMatrix is also set to sign a pact with a contractor, says a source close to the company, "that dwarf the \$3.6 million from the Defense budget."

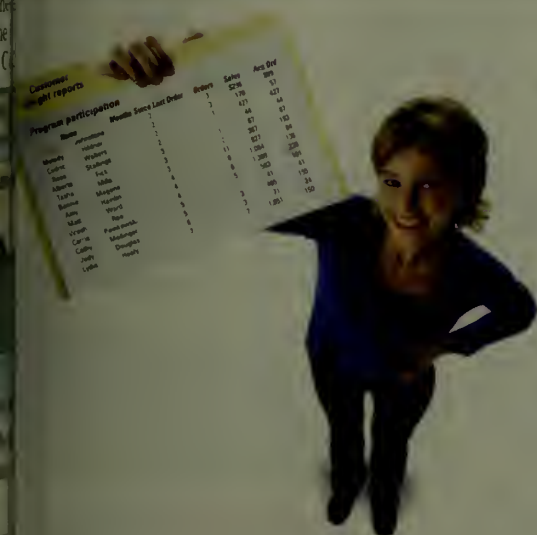


BusinessWeek online Read Gene Marcial's Inside Wall Street Online monthly column at www.businessweek.com/today.htm. And see him Fridays at 1:40 p.m. EST on CNNfn's *The Money Gang*.

Unless otherwise noted, neither the sources cited in Inside Wall Street nor their firms hold positions in the stocks under discussion. Similarly, they have no investment banking or other financial relationships with



You can't always control
how they use office supplies,
but you can control
overall costs.



Here's a wake-up call: While office products are typically 12% of supply budgets, they can account for 70% of transactions. That takes a lot of your associates' time. And up to half of their purchases may cost 15% more than you expected. Boise Office Solutions can help. Our unique Customer Insight ReportsSM show you who's ordering what, when and how. So you can really control expenditures. And our easy, personalized ordering system saves valuable time. For eye-opening proof on how we can save you money, call 1-888-BOISE-88. **Boise. It Couldn't be Easier.[®]**

BOISE[®]

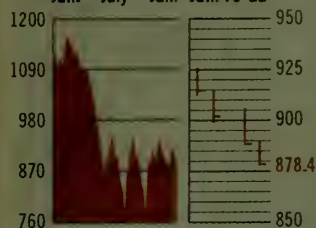
Office Solutions

OFFICE PRODUCTS • TECHNOLOGY • FURNITURE • OFFICE PAPERS

STOCKS

S&P 500

Jan. July Jan. Jan. 16-22



COMMENTARY

The three major indexes fell throughout the week, with uncertainty over Iraq contributing to the gloom. The NASDAQ Composite fell 5.5%, the Dow Jones industrial average dipped 4.6%, and the S&P 500 was down 4.3%. Earnings shortfalls didn't help. J.P. Morgan Chase announced a dreary quarter; Eastman Kodak said it would not meet profit targets.

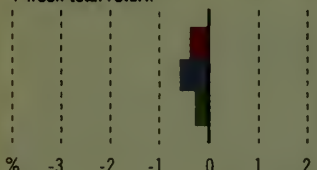
Data: Bloomberg Financial Markets, Reuters

MUTUAL FUNDS

Week ending Jan. 21

■ S&P 500 ■ U.S. Diversified ■ All Equity

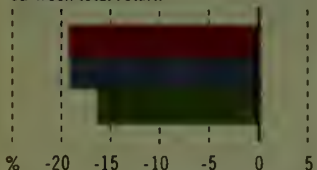
4-week total return



Week ending Jan. 21

■ S&P 500 ■ U.S. Diversified ■ All Equity

52-week total return



Data: Standard & Poor's

THE WEEK AHEAD

DURABLE GOODS ORDERS Tuesday, Jan. 28, 8:30 a.m. EST ► New orders for durable goods probably rose 0.8% in December. That's based on the median forecast of economists surveyed by MMS International.

FOMC MEETING Tuesday, Jan. 28, 9 a.m. EST ► The Federal Reserve Board's Open Market Committee will meet for two days to set monetary policy. Economists surveyed by MMS International fully expect interest rates will hold at 1.25%.

CONSUMER CONFIDENCE Tuesday, Jan. 28, 10 a.m. EST ► The Conference Board's Janu-

ary confidence index very likely slipped to 80, from 80.3 in December.

GROSS DOMESTIC PRODUCT Thursday, Jan. 30, 8:30 a.m. EST ► The economy is forecast to have grown at an annual rate of 1% in the fourth quarter, much slower than the 4% pace of the third quarter.

EMPLOYMENT COST INDEX Thursday, Jan. 30, 8:30 a.m. EST ► Compensation in the fourth quarter probably climbed by 0.8%, for a second straight period.

PERSONAL INCOME Friday, Jan. 31, 8:30 a.m. EST ► Personal income in December

most likely rose 0.2%, while personal expenditures probably increased 0.7%.

The BusinessWeek production index rose in the ended Jan. 11 to 194.6, up 4.3% from a year ago. The index has been revised back to 1992 to reflect the impact of the new North American Industry Classification System on certain components. More complete information is available at www.businessweek.com.

BusinessWeek online

For the BW 50, more investment data, and the components of the production index, visit www.businessweek.com

U.S. MARKETS

	JAN. 22	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
S&P 500	878.4	-4.3	-0.2	-22.1
Dow Jones Industrials	8318.7	-4.6	-0.3	-14.9
NASDAQ Composite	1359.5	-5.5	-1.8	-29.6
S&P MidCap 400	423.2	-3.7	-1.5	-14.9
S&P SmallCap 600	193.0	-3.3	-1.8	-14.9
Wilshire 5000	8322.1	-4.1	-0.3	-20.8

SECTORS

	JAN. 22	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
BusinessWeek 50*	537.4	-3.3	-0.9	-23.5
BusinessWeek Info Tech 100**	289.3	-6.3	1.3	-27.7
S&P/BARRA Growth	447.6	-4.1	-0.3	-24.0
S&P/BARRA Value	427.7	-4.6	-0.1	-20.4
S&P Energy	176.9	-3.3	-3.4	-12.0
S&P Financials	301.2	-4.2	1.5	-15.3
S&P REIT	87.2	-2.3	-4.0	-6.5
S&P Transportation	163.6	-4.9	-3.7	-16.9
S&P Utilities	97.2	-3.7	-0.6	-31.4
GSTI Internet	77.5	-5.0	3.7	-22.6
PSE Technology	464.1	-6.0	1.3	-31.5

*Mar. 19, 1999 = 1000 **Feb. 7, 2000 = 1000

BEST-PERFORMING GROUPS

	LAST MONTH %		LAST 12 MONTHS %
Divsfd. Metals & Mining	10.5	Metal & Glass Containers	37.8
Office Electronics	9.8	Photographic Products	26.4
Broadcasting	9.6	Divsfd. Metals & Mining	22.2
Internet Software	8.1	Gold Mining	16.8
Internet Retail	7.7	Specialty Chemicals	14.4

EQUITY FUND CATEGORIES

4-WEEK TOTAL RETURN % 52-WEEK TOTAL RETURN %

LEADERS

Japan	4.9	Precious Metals	55.9
Communications	4.2	Natural Resources	2.0
Diversified Pacific/Asia	2.5	Real Estate	1.4
Precious Metals	2.4	Japan	-4.7

LAGGARDS

Natural Resources	-3.3	Technology	-38.6
Real Estate	-2.2	Communications	-31.4
Latin America	-2.1	Health	-24.9
Mid-cap Growth	-1.3	Small-cap Growth	-24.7

EQUITY FUNDS

4-WEEK TOTAL RETURN % 52-WEEK TOTAL RETURN %

LEADERS

Sm. Barney Telcns. Inc.	64.9	First Eagle SoGen Gold	88.5
OPTI-flex Dynamic	18.5	Monterey OCM Gold	77.3
Apex Mid Cap Growth	17.6	Van Eck Intl. Invs. Gold A	74.0
Van Wagoner Post Venture	10.8	Gabelli Gold	71.9

LAGGARDS

Frontier Equity	-13.0	ProFunds UltraSemicdr. Inv.	-68.0
Fidelity Sel. Energy Serv.	-10.9	ProFunds UltraWriss. Serv.	-65.4
Rydex Energy Svcs. Adv.	-9.9	ProFunds UltraOTC Inv.	-64.4
ICON Energy	-8.2	Rydex Dynam. Veloc. 100	-63.6

GLOBAL MARKETS

	JAN. 22	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
S&P Euro Plus (U.S. Dollar)	833.7	-5.9	-1.1	-1.1
London (FT-SE 100)	3678.0	-5.4	-6.1	-6.1
Paris (CAC 40)	2931.4	-6.5	-4.1	-4.1
Frankfurt (DAX)	2803.3	-8.1	-3.1	-3.1
Tokyo (NIKKEI 225)	8611.0	0.0	0.0	0.0
Hong Kong (Hang Seng)	9560.3	-3.2	2.0	2.0
Toronto (S&P/TSX Composite)	6721.3	-1.2	1.0	1.0
Mexico City (IPC)	6024.1	-5.9	-1.1	-1.1

FUNDAMENTALS

	JAN. 21	WK. AGO
S&P 500 Dividend Yield	1.79%	1.71%
S&P 500 P/E Ratio (Trailing 12 mos.)	28.3	29.8
S&P 500 P/E Ratio (Next 12 mos.)*	16.1	16.7
First Call Earnings Surprise*	3.96%	6.99%

TECHNICAL INDICATORS

	JAN. 21	WK. AGO
S&P 500 200-day average	944.0	948.4
Stocks above 200-day average	32.0%	39.0%
Options: Put/call ratio	0.72	0.72
Insiders: Vickers NYSE Sell/buy ratio	2.34	2.28

WORST-PERFORMING GROUPS

	LAST MONTH %		LAST 12 MONTHS %
Airlines	-16.6	Multi-Utilities	
Motorcycles	-12.9	IT Consulting	
Aluminum	-12.8	Tires & Rubber	
Building Products	-12.1	Semiconductors	
Constr. Materials	-11.1	Instrumentation	

INTEREST RATES

KEY RATES

	JAN. 22	WEEK AGO	YE
MONEY MARKET FUNDS	0.99%	1.01%	
90-DAY TREASURY BILLS	1.16	1.18	
2-YEAR TREASURY NOTES	1.61	1.72	
10-YEAR TREASURY NOTES	3.91	4.06	
30-YEAR TREASURY BONDS	4.85	4.96	
30-YEAR FIXED MORTGAGE†	5.88	6.02	

†BancQuote

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 30% federal tax rate.

	10-YR. BOND	30-YR.
GENERAL OBLIGATIONS	3.84%	4
TAXABLE EQUIVALENT	5.49	6
INSURED REVENUE BONDS	4.01	5
TAXABLE EQUIVALENT	5.73	7

Index to Companies

gives the starting page for a story or feature with a significant company. Most subsidiaries are indexed under their own names. Listed only in tables are not included.

A	C	F
Amie & Fitch (ANF) 0.4	Cadbury Schweppes (CSG) 96	Fandango 43
Airbus (ACN) 50, 56	Caliper 63	FedEx (FDX) 63
Alcoa Metals (AMIQ) 101	Callard Asset Management 108	Fluor (FLR) 50, 56
Alia Communications (Q) 14	Carnival (CCL) 14	Ford Equity Research 108
Altria 58	Cendant (CD) 78	Forest Laboratories (FRX) 108
Altimetris Holdings (AAIR) 66	Channel Trend 108	Forrester Research (FORR) 50, 74
Altimetris Telecom (ALGX)	Charles Schwab (SCH) 16	FreshDirect 43
Amazon.com (AMZN) 74,	ChevronTexaco (CVX) 60, 101	Fruit of the Loom (BRK) 101
Anda Hess (AHC) 14	Chubb (CB) 78	G
American Airlines (AMR) 6	CIBC World Markets (BCM) 74	Gap (GPS) 46
American Express (AXP) 0, 78	Cinergy (CIN) 14	Gartner (IT) 50
American Greetings (AM)	Citibank (C) 50	General Dynamics (GD) 46
American International (AIG) 50	Citigroup (C) 14, 113	General Electric (GE) 21, 40, 50, 56
American Pharmaceuticals (N) 70	CMS Energy (CMS) 108	General Motors (GM) 74
American Devices (ADI) 108	CNBC (GE) 16	Gerard Klauer Mattison 114
American Warner (AOL) 29	Collaborative Economics 50	Global Capital Institute 108
American Computer (AAPL) 11	Columbine Capital Services 108	Global Crossing (GBLXQ) 82
American Healthcare Group (A) 40	CombiMatrix (CBMX) 114	Global Partners Securities 114
American 111	Commerce One (CMRC) 74	Google 14
ARBA 74, 82	Commercial Bank of Texas 42	H
AT&T 21, 40	ComScore Media Metrix 43	Hay Group 63
AT&T Partners 50	Conseco (CNCEQ) 56	Hewlett-Packard (HPQ) 50
	Continental Airlines (CAL) 46	Hibernia National Bank (HIB) 42
	Credit Suisse First Boston (CSR) 82	Home Depot (HD) 21
	D	Home Shopping Network 78
	DaimlerChrysler (DCX) 101	Homestead Technologies 29
	Dell Computer (DELL) 50, 60	HSBC (HBC) 50, 56
	Delta Air Lines (DAL) 46, 56, 66	I
	Donahue Real Estate 110	IBM (IBM) 50
	E	IDC 44
	Eastman Chemical (EMN) 74	Imperial Chemical Industries (ICI) 108
	Eastman Kodak (EK) 46, 50, 60	INA-Schaeffler 50
	eBay (EBAY) 74	Inco (N) 100
	Ecolab (ECL) 108	Infosys Technologies (INFY) 50
	Electronic Data Services (EDS) 50	Inktomi (INKT) 74
	Enron (ENRNQ) 40, 63, 118	Intel (INTC) 44, 50, 56, 60, 108
	Ernst & Young 50	International Management Group 46
	Expedia (EXPE) 21, 78	

International Steel Group (ISG) 100, 101
Intuit 44
Investars.com 108
ItsDeductible.com 105

J
JetBlue Airways (JBLU) 66
Jetstream Group 50
John Hancock Financial Services (JFK) 62
J.P. Morgan Chase (JPM) 63, 114
Juniper Networks (JNPR) 74

K
Kleiner Perkins Caufield & Byers 74
Knight-Celotex 42
Kohl's (KSS) 108
Korn/Ferry International 40
Kraft Foods (KFT) 63

L
LaSalle Bank 42
Legg Mason Funds Management (LM) 78
Lehman Brothers (LEH) 50, 114
Los Angeles Dodgers 46
LTV (LTVQ) 100, 101

M
Macromedia (MACR) 29
Market Profile Theorems 108
Maytag (MYG) 62
McDonald's (MCD) 46
McGraw-Hill (MHP) 116
McKinsey 50, 63
Medicines Co. (MDCO) 70
Mercedes-Benz (DCX) 101
Mercer Human Resource Consulting (MMC) 78
Merrill Lynch (MER) 108
Microsoft (MSFT) 14, 21, 29, 44, 50, 56, 60, 108
Midgett Realty 110
Midway Airlines 66
Mill Pond Realty 110
Moody's Investors Service (MCO) 40
Motorola (MOT) 46, 108

N
Nantucket Real Estate 110
Nasscom 50
National Steel (NSTLB) 100

NEC (NIPNY) 69
Needham 114
News Corp. (NEWS) 46
Nike (NKE) 14
Northwest Airlines (NWAC) 46
Nucor (NUE) 34

O
Old Navy (GPS) 46
Oracle (ORCL) 50, 56, 74, 108

P
Paion 70
Papa John's International (PZZA) 78
PepsiCo (PEP) 96
Philips Electronics (PHG) 50, 56
PNC Financial Services (PNC) 34
Procter & Gamble (PG) 50, 56, 60
PSINet 14
Public Service Enterprise Group (PEG) 113

Q
Quark 44
R
Rams Head Realty 110
Raytheon (RTN) 40
RCA 111
RedEnvelope 43
RHL Associates 114
Rite Aid (RAD) 108
Ritz-Carlton Hotel (MAR) 105

S
SAP (SAP) 74
Sears Roebuck (S) 105
7-Eleven (SE) 96
SGV 50
Sharper Image (SHRP) 114
Sibson Consulting 14, 78
Siemens (SI) 74
Simon & Schuster (VIA) 49
Smart Analyst 50
SONICblue (SBLU) 111
Source 1 Asia 60
Southwest Airlines (LUV) 66
Standard & Poor's (MHP) 42, 105, 108, 116
Sun Microsystems (SUNW) 40
Sutter Hill Ventures 43

Sybase (SY) 74
Sykes Enterprise 60

T
Technology Crossover Ventures 43
Texas Instruments (TXN) 50
Thorsen 42
Ticketmaster 78
Trans World Airlines (TWA) 14
TransMolecular 70
Tyco International (TYC) 40, 113, 118

U
UBS Securities (UBS) 44
UBS Warburg (UBS) 66, 96
Unisys R2A Transportation Management Consultants 66
United Airlines (UAL) 46, 66
Universal Music Group (V) 96
US Airways (U) 46, 66
USA Interactive (USAI) 78
U.S. Steel (X) 100

V
Vanguard Group 113
Venture Economics(TOC) 43
Verizon Communications (VZ) 46
Vivendi Universal (V) 108

W
Wal-Mart Stores (WMT) 63
Walt Disney (DIS) 40, 46
WebVan Group 43
Windermere Real Estate 110
Wipro (WIT) 50
Wipro Spectramind 50
W.L. Ross 101
WorldCom (WCOEQ) 118
WR Hambrecht 114

Y
Yahoo! (YHOO) 74
Yellow (YELL) 34
YouGov 34

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$59.97/year; Canada: CDN \$94.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Canada Post Publication Mail Agreement Number 40012501. Postmaster: Send address changes to BusinessWeek. P.O. Box 53235, Boulder, CO. 80322-3235.

A GLOBAL WHITE-COLLAR MIGRATION

Get ready for the second act of the grand drama we call globalization (page 50). The 1980s opened with a massive manufacturing migration from industrialized countries to the Third World that accelerates to this day. This decade is witnessing a second huge shift, this time in services, with white-collar professional jobs following the same blue-collar migratory routes to Asia and elsewhere. As the World Economic Forum meets in Davos, Switzerland—and as protesters gather there to shake their fists at globalization—we would all do well to ponder the consequences of this historic relocation. We, for one, believe the latest iteration in the evolution of the global economy will generate more growth for everyone over time as countries focus their abilities on doing what they do best. But the adjustment may well be painful for those middle-class Americans and Europeans who see their jobs in software writing, chip design, architecture, and accounting move to India, China, Israel, Russia, and the Philippines. If the migration of services is not mediated by good growth-promoting government policy, there's a serious risk that the anti-globalization forces will gain an army of jobless white-collar recruits.

The dimensions of the service shift are only just beginning to come into focus. We can discern the trend but not the strength or size of the move. The collapse of the tech bubble and the weak recovery are leading a growing number of U.S. bank, insurance, credit-card, accounting, investment banking, high-tech, engineering, and design companies to outsource white-collar work.

This is likely to prove to be more than just a cyclical phenomenon. The Internet, digitization, the spread of white-collar skills abroad, and the big cost savings of outsourcing will probably make the shift of services a permanent feature of economic life. The good news is that the sloughing off of commodity-like service work will increase the profits and efficiency of American corporations and set the stage for the next big growth-generating breakthrough. Innovation is the

driving force of the U.S. economy, not mass production of low-value goods or services. The painful loss of manufacturing in the '70s and '80s paved the way to the high-tech gain of the '90s. The same forces are at work today.

For their part, India, China, and other countries are creating large numbers of well-paying jobs, expanding the middle class, and reducing poverty. As a result, China is emerging as a locomotive to world growth. American exports to China in November were up 30% year-over-year at an annual rate of \$24 billion, matching what the U.S. exports to France.

Yet the global migration of services presents potential problems. Deflation is blowing out of China as manufacturing moves to low-cost producers. So far, the much larger services sector has been able to retain pricing power, but the shift of services to low-cost countries could change that. Deflation and unemployment could accelerate sharply if the U.S. economy does not re-accelerate soon.

It's a difficult time for developing countries as well. The Philippines has been exporting educated, English-speaker graduates for decades, because it has not been able to build a modern civil society with credible legal, financial, and political systems. Unless developing countries construct the institutional framework for stable growth, they may find themselves with a white-collar equivalent of *maquiladoras*, islands of export service work that do not transform their economies. India is especially vulnerable, with religious strife between Hindus and Muslims and a corrupt political system.

The U.S. must act as well. It should do what it has done in the past—move up the value-added ladder to create new products and services. That means promoting better education, completing the job of reforming the capital markets, reducing business and investor risk at home and abroad. If it can restart its growth engine, the U.S. has nothing to fear from the great white-collar migration. If it doesn't, there may be serious trouble ahead.

JUST GO, MR. PITT

Harvey L. Pitt is forgotten but not gone. The former Securities & Exchange Commission chairman, who resigned in disgrace months ago, remains in office while his replacement, William H. Donaldson, awaits Congressional confirmation. Bad idea. Pitt represented accounting industry interests in private practice in Washington. He was a reluctant reformer at best. He resigned after fumbling the key appointment to a new accounting oversight board that was supposed to generate investor confidence. Despite this terrible record, there he is, overseeing the SEC staff in writing rules that are supposed to keep accounting conflicts of interest in check. So we shouldn't be surprised that these rules are as weak as they are. And we shouldn't be surprised that the staff caved in to

heavy lobbying from the discredited accounting industry.

As a lame duck, Pitt had one last chance to restore investor trust. Yet even after Enron, WorldCom, and Tyco, he sided with the accounting industry. In the end, the SEC softened proposed rules on banning firms that did audits from also offering tax services, especially on tax shelters, to the same client. It eased rules requiring rotation of auditors. And it backed off from insisting accounting firms break out specific fees so companies pay for their services, which would have provided more transparency. At a time of economic uncertainty, regional geopolitical risks, and public jitters, this was an appalling showing that reflects poorly on the Bush Administration. Harvey Pitt should leave now.



People issues are complex. Managing them doesn't have to be.

Hewitt

outsourcing ■ HR Technology ■ Organizational Change ■ Talent & Reward Strategies ■ Retirement ■ Health Care

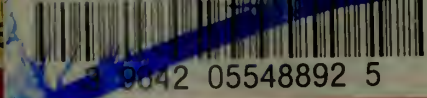
www.hewitt.com



February 10



TECH EXPOSING ITS KICKBACK CULTURE



3 9842 05548892 5

BY THE COMPANIES

BusinessWeek

February 10, 2003

www.businessweek.com



GM'S GAME PLAN

CEO Rick Wagoner has fixed many of GM's problems. But he still has to deal with 30 years of management mistakes.

Photo: [illegible]

BXBBGD ***CR LOT
LBRLP000097 1#302
BURLINGAME
JAN 3 1 2003
BURLINGAME PUBLIC
80 PRIMROSE RD
BURLINGAME CA
LIBRARY

L Keyword: BW



e
t
a
-D

Lead conversions
at Quick & Reilly
have gone up 50%.

—Donald E. Froude, CEO, Quick & Reilly

Donald Froude believes every customer should feel cared for and valued. A philosophy that's found profitable results with Siebel's CRM software. With it, Quick & Reilly's employee productivity rose 15%. Lead conversions climbed 50%. Customer retention went up 10%. Cross-selling grew 5%. Further evidence that customer relationships are still a company's best friend.

SIEBEL.

Proven CRM.
Proven results.

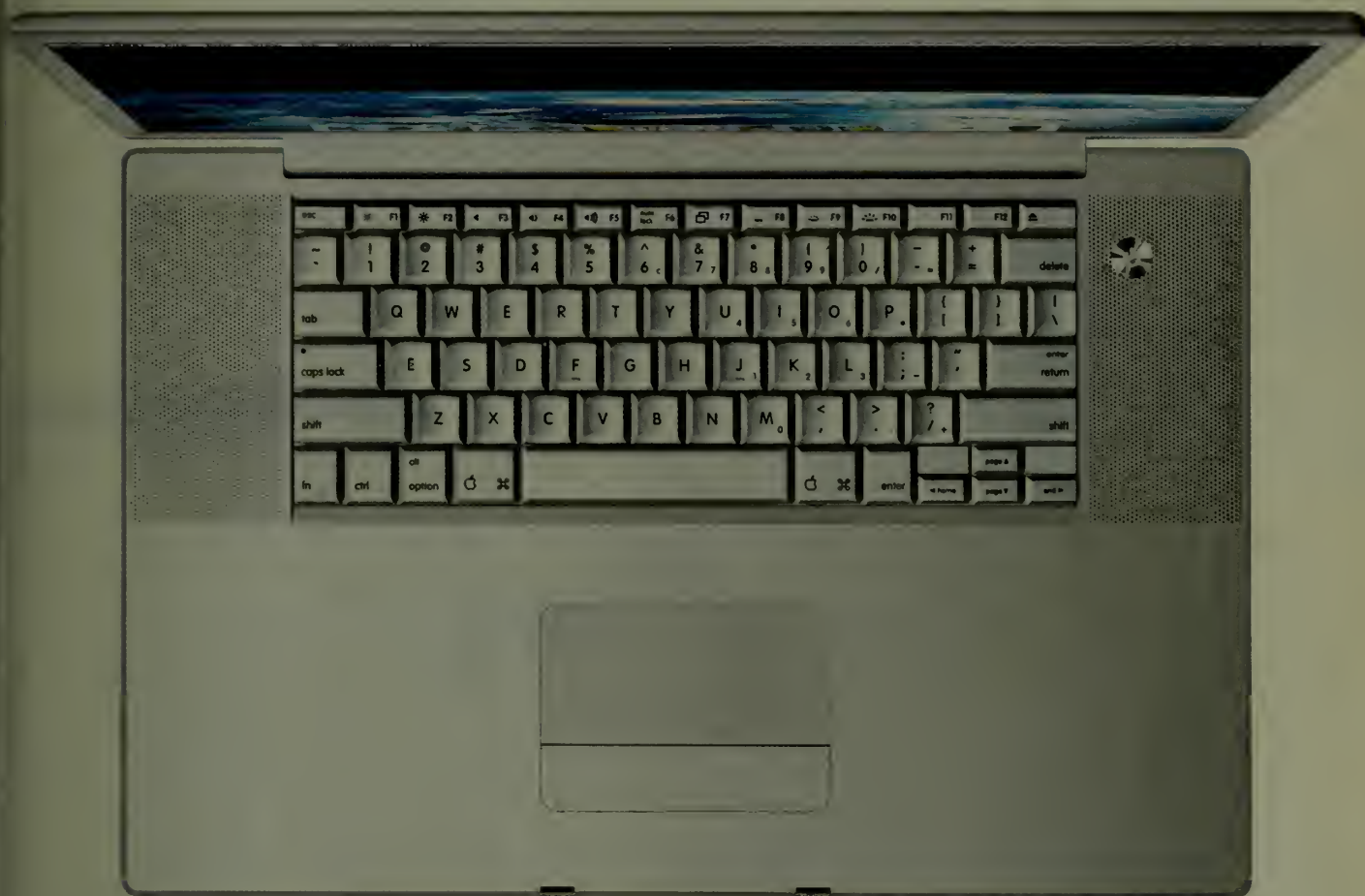
To learn more, call 1-800-307-2181
or visit siebel.com/casestudies.



Less is more.

Presenting the world's most compact full-featured notebook computer. Unlike other compact notebooks, everything is built in. Like a blazing G4 processor, super-crisp 12" display (1024 x 768), slot-load CD-burning/DVD-playing Combo drive and integrated Bluetooth. Plus a battery that lasts up to 5 hours, so you can do more—anywhere. All incredibly engineered into a stunning aluminum enclosure that's just 1.2" thin. The new 12" PowerBook.*





More is more.

Presenting the world's first 17" notebook computer. Featuring a breathtaking 17" widescreen display, blazing 1GHz G4 processor, slot-load CD/DVD-burning SuperDrive™ and the industry's first backlit keyboard. Plus AirPort® Extreme® (802.11g) and integrated Bluetooth make it the most wirelessly connected notebook ever. All miraculously engineered into a 1"-thin enclosure that's ultra-light and ultra-desirable. The new 17" PowerBook.

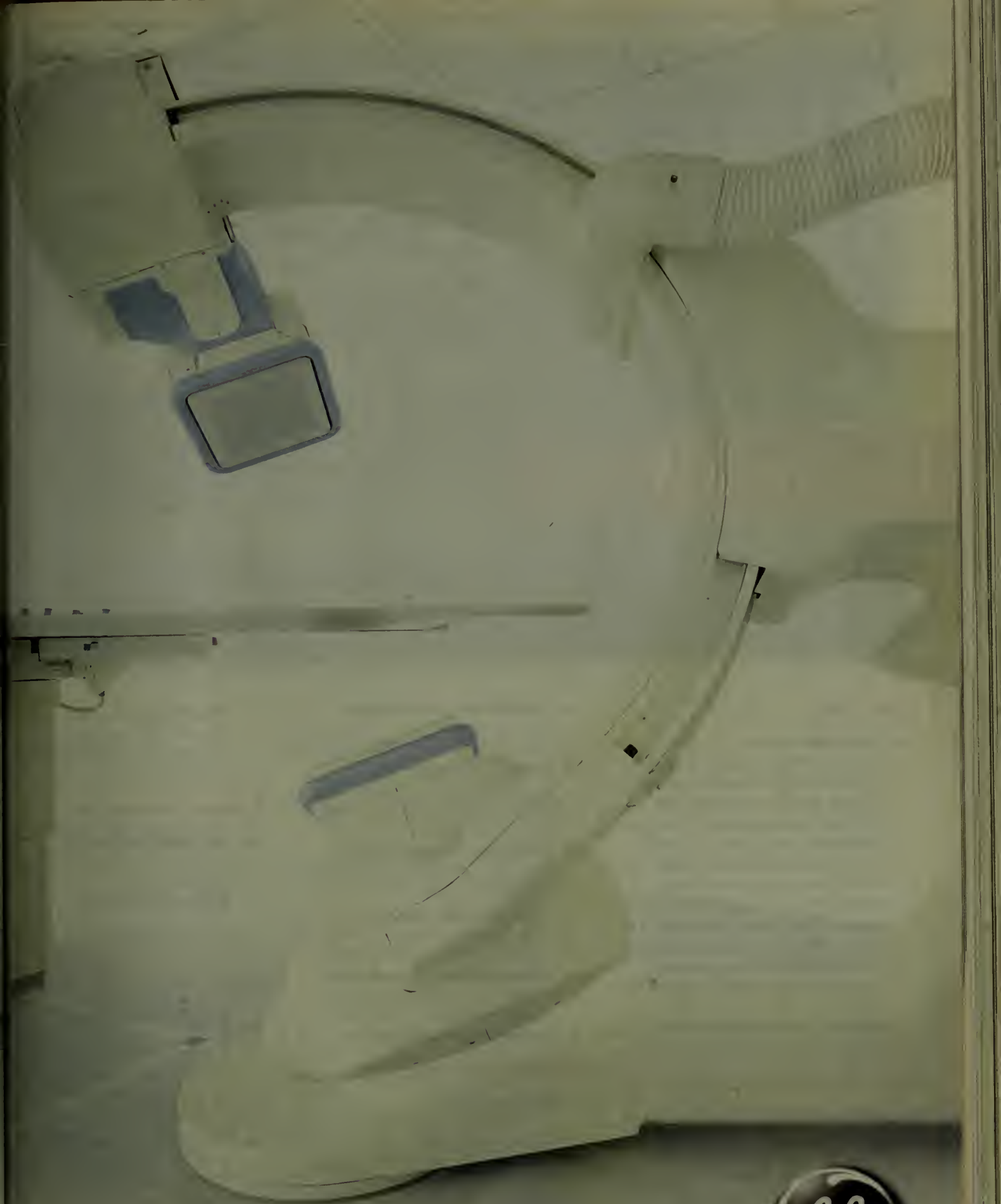


Bypass the bypass.



How do you get around bypass surgery? If doctors could see your heart more clearly, you might have other options.

That's why we developed the GE Innova® 2000, the first all-digital cardiovascular imaging system. Using it, doctors can examine your heart with unprecedented detail and clarity. They can pinpoint coronary blockages, which could provide alternatives for even a single bypass. Now, if we could only invent a way to get around eating all those burgers and fries.



imagination at work



COVER STORY

GM'S GAME PLAN

Rick Wagoner has work wonders. Now, he needs some hot cars **page 52**

BusinessWeek

FEBRUARY 10, 2003

Cover Story

52 GM'S GAME PLAN

CEO Rick Wagoner has fixed many of the carmaker's woes—he's slashing costs, cutting payroll, and overhauling aging plants. Now, GM ranks close to Honda and Toyota for productivity and has made strides in quality. It has even recaptured leadership of the truck business from Ford. But as good as those moves are, they pale next to the problems of GM's weak car brands and huge pension payments. In essence, Wagoner still must battle 30 years of management mistakes. Can he finish the job?

News: Analysis & Commentary

28 WAITING IT OUT

The economy's promised rebound may take longer than expected—and not just because of war jitters

30 PROFITS SHAPED BY AN AX

With sales growth slow, cost-cutting leads to better earnings

32 AN INVISIBLE ECONOMIC TEAM

Can Bush's pitchmen get up to speed selling his tax plan?

33 COMMENTARY: TAX REFORM

The President's plan would make a complicated tax code even murkier

34 IT'S NOT ALL ABOUT OIL, BUT...

A quick military victory in Iraq would send companies scrambling for drilling rights

36 RETAILERS VS. FREE MUSIC

Now the merchants are trying their own digital offerings

36 CISCO AND THE PIRATES

It files an intellectual property lawsuit against a Chinese rival

38 COMMENTARY: MARVIN BOWER

The legacy of McKinsey's late, legendary leader

40 IN BUSINESS THIS WEEK

International Business

44 BRITAIN: SENDO

This mobile-phone startup says the software giant tried to "plunder" its technology. Microsoft is saving its response for court

46 SWITZERLAND: ABB

Can new CEO Jürgen Dormann avoid a meltdown at the giant?

47 INDIA: COCA-COLA

After a decade of missteps on the subcontinent, it gets it right

51 INTERNATIONAL OUTLOOK

France and Germany may be united—but their alliance is creating divisions on the Co

Economic Analysis

24 ECONOMIC VIEWPOINT

Becker: The delayed benefits dividend tax cut

25 BUSINESS OUTLOOK

U.S.: War talk chills the rec
Canada: A hawkish central b

Government

43 WASHINGTON OUTLOOK

Bush's nods to the Religious get trickier as 2004 nears an needs moderate suburban su

Legal Affairs

62 ONE NASTY FAMILY FEUD

EDS's lawsuit against the for CEO of subsidiary A.T. Kearns bringing out a lot of dirty lau

Marketing

64 DIESEL IS SMOKIN'

Can edgy ads keep sales grow hot at the Italian fashion cha



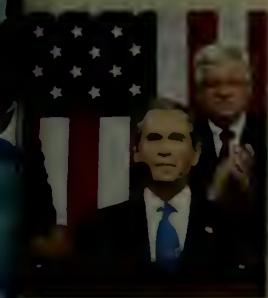
LY FEUD
and Kearney
t out page 62



- ▶ Sniffing out stock info page 82
- ▶ The dish on satellite TV page 84
- ▶ Investment guides for hard times page 86
- ▶ Barker: Coke gets a little sweeter page 89



SWEET DEALS
The ethical dilemmas over high-tech IPOs page 74



SCARING DISNEY
Soon, Pixar will be able to shop for a new partner page 72



OWNERS' ANGST
Suddenly, there's a glut of big-league teams for sale page 70

GRILLING BILL
Before Donaldson heads the SEC, let's clear up a few issues page 66



SNAP
profits and war
im economic
ects page 28

ce

COMMENTARY: THE SEC
me tough questions for the
nate Banking Committee about
minee Bill Donaldson

D E*TRADE JUST TRADE UP?
vestors like new CEO Caplan, but
ll his turnaround strategy take?

MERCY FOR MUTUAL FUNDS
egulators and lawmakers are
arting to get tough with them

s Business

ET YOUR TEAMS HERE!
o many big-league franchises for
le, so few takers

ILL PIXAR DUMP DISNEY?
he animation powerhouse will
on be able to shop for a new
artner—and suitors are already
ning up

ice & Technology

COMMENTARY: HEALTH CARE
cold look at the cost of saving
ves raises questions about tests

Information Technology

- 22 WILDSTROM: TECHNOLOGY & YOU**
Smart phones: The latest entries have a lot of disconnects
- 74 HIGH TECH'S KICKBACK CULTURE**
Influence-peddling looks to have galloped across the industry— affecting suppliers, vendors, and independent market researchers

BusinessWeek Investor

- 81 DIVIDENDS**
Foreign stocks; airport golf in Atlanta; Wall Street rhymes; luminous keyboards
- 82 I-WAY SLEUTHING STOCKS**
A few clicks can yield surprising and useful information about companies and brokers
- 84 TO DISH OR NOT TO DISH**
Thinking of switching from cable? Here are some answers to common questions about satellite TV
- 84 DON'T CUT THE CORD JUST YET**
Telephone earpieces aren't ready for prime time

85 HOW SWEET IT IS

Looking to melt a heart on Valentine's Day? You can't go wrong with couture chocolates

86 A PORTFOLIO OF GRIM ADVICE

This year's investment guides mainly forecast doom and gloom. But there are a few bright spots

88 TIME FOR A POWER PLAY?

Utilities are attractive these days, and a dividend tax cut would only add to their charms

89 THE BARKER PORTFOLIO

Things are going better with Coke, and given its reliable earning power, the stock looks cheap

90 MARCIAL: INSIDE WALL STREET

Features

10 UP FRONT

14 READERS REPORT

20 BOOKS

Buruma: *Inventing Japan, 1853-1964*

91 FIGURES OF THE WEEK

92 INDEX TO COMPANIES

94 EDITORIALS

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

Updated every business day at www.businessweek.com



Visit the BusinessWeek 50 area of our site for news, investing tools, and more at

www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ TRANSATLANTIC GAP:

Bush's tax policy could give U.S. industry an edge over Europe, says BW's Bob Dowling



■ INSURANCE CHECKUP:

How solid is the company holding your policy? BW's Jeff Laderman tells how to find out



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your handheld! Get news from Daily Briefing, S&P data, and more.

Visit AvantGo.com to sign up



Find quick links to everything on this page at the Feb. 10, 2003, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/03_06/online.htm

Antipiracy Push

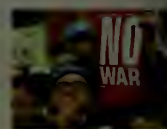
The music industry's legal assault is winning battles but losing the war. While taking action against copyright thieves may be justified, in the long run educating them is just as important



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

News Analysis: Disagreement over Iraq and America's dismissive attitude toward the Continent threaten to create an enduring rift between the U.S. and Europe



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Street Wise: Pharmaceuticals may see better days in 2003, with Pfizer and Lilly having particularly good potential for healthier share prices

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

What Works: Some are no better than scams, but many workshops can be well worth the time and money, says management consultant Ken Keller



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Street Wise: Lower costs and new plants may boost Intel, especially if chip sales beat estimates



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

Q&A: The admissions director of Rochester's Simon Graduate School of Business discusses the application process and myths about the school

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

News Analysis: Several strategies to get Japan rolling again are being debated, but a decade of deflation could still be looming

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Q&A: Executive coach Debra Condren talks about the issues that confront couples when the wife earns more

**DR. GEORGE VANDE WOUDE
HAS AN IMPRESSIVE FOLLOWING.**

THEY FOLLOWED HIM TO

MICHIGAN

Thirty-seven distinguished cancer researchers and scientists from 10 countries followed Dr. Vande Woude to the Van Andel Research Institute (VARI). Certainly his reputation and credentials as the former Director for the Division of Basic Sciences at the National Cancer Institute is an attraction as is VARI's aggressive work in cancer research.

This is part of the story of what's going on today in Michigan's Life Sciences Corridor. There's more. You may be surprised to learn that Michigan ranks in the top ten states in the nation for life sciences.

Your company could provide an interesting chapter. Call 1.800.945.6529 or visit www.michigan.org

www.michigan.org



MICHIGAN | GREAT LAKES. GREAT LOCATION.

Up Front

EDITED BY SHERIDAN PRASSO



OLD BIRD:
A KC-135

PLANE TALK

AIRBUS: ZEROING IN ON KANSAS

AIRBUS, THE EUROPEAN ARCH-rival to Boeing, may set up a manufacturing plant in Wichita—not to build commercial jets but to make air tankers for the U.S. military, officials familiar with the plan tell *BusinessWeek*.

The plant would draw on a vast number of unemployed aerospace workers in the area laid off from Boeing, Cessna, Raytheon, and Learjet. (Another site being considered is Kansas City, Kan.) An ongoing \$10 million fea-

sibility study calls for hiring at least 1,000 workers to make A330 tankers for the Pentagon, the officials say. The planes would replace 600 aging KC-135 tankers—old Boeing planes from the 1950s.

Airbus' parent, EADS, hopes to become a big U.S. defense contractor. Philippe Camus, co-CEO of EADS, has said that an industrial presence in the U.S. is key to long-term success—and that if Airbus and EADS won a large contract, he would consider building a final-assembly plant here. Airbus has a research facility in Wichita, and EADS supplies helicopters to the U.S. Coast Guard. EADS officials declined to comment on the study.

Boeing, sure to be chagrined by having its rival hire its former workers, already has won one round of bidding to replace 100 of the old tankers. Now comes the competition to replace the remaining 500. *Stanley Holmes*

BANK NOTES

THE ENFORCER STRIKES AGAIN

JUST WHEN WALL STREET firms thought New York Attorney General Eliot Spitzer was done with them, *BusinessWeek* has learned he's investigating charges that investment banks colluded to manipulate initial public offerings.

Spitzer's office has filed a letter in a Manhattan court saying he intends to weigh in by Feb. 5 on whether Wall Street should be subject to antitrust law. An antitrust suit by aggrieved investors alleges that the top 10 invest-



SPITZER: A
bank bash?

ment banks conspired to overcharge people who bought the IPOs of tech companies (BW—Feb. 3). Banks deny the allegation, and say they are immune from antitrust scrutiny, since they are regulated under securities laws and by the Securities & Exchange Commission.

Spitzer's decision to take a side—most likely that of the investors—doesn't look good for the banks. It could mean that he will later bring his own antitrust charges against them. Spitzer's office says

there is no legal reason banks should be immune from antitrust law. *Emily Thornton, with Heather Timmons*

NEWS FLASH For sale, on eBay: "Complete staff of ZDNet Te Update...currently available to instantly implement professional Web site or print magazine." Bidders compete for the résumés of 10-member team, which expects an eventual offer for salary and benefits in the high six figures. Highest bid as of press time: \$21

BUSH LEAGUE

STATS: NOW YOU SEE 'EM...

SINCE PRESIDENT BUSH TOOK office two years ago, the economy has lost some 1.7 million jobs, making job creation a sore point around the White House. Now, either by coincidence or by design, two agencies have taken actions that make the Administration's unremarkable record on jobs a little harder to spot.

The President's own Council of Economic Advisers has yanked off its Web site a study predicting mediocre job growth from Bush's proposed \$674 billion economic stimulus plan. The study forecast a modest 170,000 more jobs than would otherwise be created—0.1% of the work-

force—every year through 2007, on average. The study was pulled within two days of Bush's Jan. 7 speech, in spite of its action, the council says it stands behind the numbers.

And on Christmas Eve, the Bureau of Labor Statistics quietly announced that it would no longer publish the monthly layoff statistics, even though it had been putting out the numbers since 1962. The statistics were used to help states determine where to spend money on job-retraining programs. "We're losing information we really need," complains Henry Jackson, director of Illinois' Division of Economic Information Analysis. Labor officials say that the resulting savings of \$6.6 million annually will be diverted directly to states for job training.

Peter Coy and Laura Co

THE LIST RESUMEGATE

Is it really so hard to write an accurate résumé? At least five execs in the past year haven't managed it:

EXECUTIVE	DEGREE HE DIDN'T HAVE	OUTCOME OR SANCTION
RAM KUMAR , Research Director Institutional Shareholder Services	JD, University of Southern California	Dismissed from ISS
KENNETH LONCHAR , CFO Veritas Software	MBA, Stanford University	Resigned under pressure
BRYAN MITCHELL , Chairman/CEO MCG Capital	BA Economics, Syracuse University	Forfeited two years' bonus, chairman title; remains CEO
JEFF TAYLOR , Chairman Monster.com	Executive MBA/OPM, Harvard University	None
RON ZARRELLA , CEO Bausch & Lomb	MBA, New York University	Forfeited a \$1.1 million bonus

GET A FRESH START TODAY WITH CHARLES SCHWAB.

**For a limited time, we'll help you rebalance your portfolio
and include all recommended equity trades for a one-time fee.**



**Rebalancing plan.
Recommended equity trades included.**

Investors want a fresh start in the market, and Charles Schwab is making it possible for less than the cost of a single equity trade at many traditional brokerage firms. It begins with listening to you and your financial goals. Then we review your portfolio and provide you with a detailed report that evaluates your asset allocation and identifies common portfolio pitfalls such as sector and equity concentrations. Most importantly, we will deliver a rebalancing plan based on your needs with specific recommendations on what to buy, hold and sell. To participate, transfer \$25,000 to Charles Schwab and join the movement of investors who moved more than \$40 billion to us last year. Call 1-800-540-9874 or visit us at schwab.com.

Join the movement and get your fresh start.

CALL 1-800-540-9874

Call by February 28, 2003.

charles SCHWAB

You must respond by February 28, 2003, and be available to complete the appointment by May 30, 2003. Schwab will waive commissions and fees only for trade orders that Schwab recommends for equity positions held at Schwab and that you place in conjunction with the consultation. Net new assets exclude margin loans and transfers between Schwab accounts. For new customers, offer subject to account application acceptance by Schwab. Household balances of less than \$50,000 may trigger quarterly or annual account service fees in your account(s), depending upon account type. For household balance definition, other promotional details and limitations, see Fresh Start Terms and Conditions. Offer not transferable or valid in conjunction with any other Schwab offer. Open to U.S. residents only. One offer per household. Net new assets from January–December 2002 consist of Schwab's Retail individual investor assets and individual investor assets custodied at Schwab and managed by independent Investment Advisors. ©2003 Charles Schwab & Co., Inc. All rights reserved. Member SIPC/NYSE. (0103-7105). ADS24891.

Up Front

POLLS & POLS

THE NAYSAYERS HAVE IT

HOW STRONG IS SUPPORT FOR President Bush's tax plan? *BusinessWeek's* Cover Story "Class Warfare?" (Jan. 20) asked people to vote on our Web site, and the results are in.

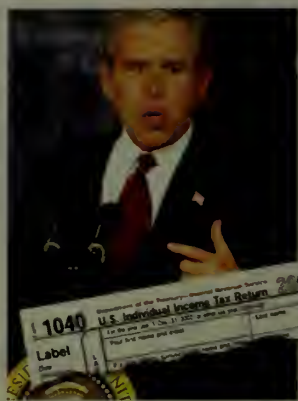
With 2,411 respondents one week after the cover date, it seems most *BusinessWeek* readers are lined up against it:

- 52% oppose the Bush plan.
- 44% favor it.
- 4% are uncertain.

Posing the question, which was based on the assumption that the Bush tax cut would

boost the economy but worsen income inequality, also generated a ton of mail, both for and against (page 14).

Support was stronger than in another recent poll, from *The Wall Street Journal/NBC News*, which showed 41% in favor, and 50% opposed.



TAX CUT: Tepid support

Our sample wasn't scientific: The poll was open to anyone, including non-subscribers. Site visitors' median household income was \$85,000, about twice the national level, and may have produced a bias in favor of a tax cut.

In the end, it looks as if the President's economic program is facing an uphill battle. *Kimberly Weisul*

WILD, WILD WEST

NOT EXACTLY A STRAIGHT SHOOTER

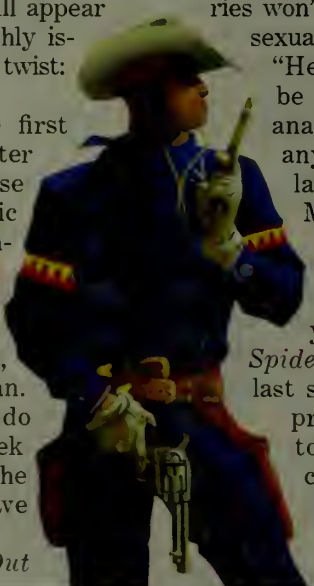
IN LOOKING TO RELAUNCH THE *Rawhide* Kid comic book series popular in the 1950s, the folks at Marvel Comics realized the character was too well-dressed and too put-together to be just any old rye-swilling, dusty cowboy. So on Feb. 5, the *Rawhide* Kid: *Slap Leather* will appear (\$2.99 per monthly issue) with a new twist: He's gay.

He'll be the first gay lead character for Marvel, whose long list of comic book heroes includes Captain America, the X-men, the Incredible Hulk, and Spider-Man. "We wanted to do a tongue-in-cheek comedy about the West, and we

thought having a gay protagonist was an interesting way to approach that," says Marvel Editor-In-Chief Joe Quesada.

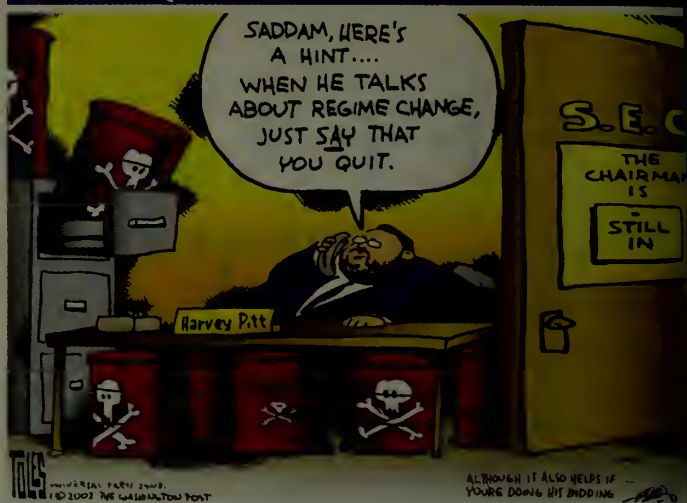
Could this be risky? No, says Quesada, Marvel is counting on the Kid to lure new readers. Plus, the stories won't focus directly on sexuality, says Quesada: "He just happens to be gay." Wall Street analysts agree that any potential backlash wouldn't dent Marvel or parent Marvel Enterprises, which has had a blockbuster year since the *Spider-Man* movie hit last summer. Its share price has doubled, to 10. Perhaps a celluloid version of the *Rawhide* Kid isn't too far off.

Tom Lowry



RAWHIDE KID: Out

DRAWN & QUARTERED



OVER THERE

VIAGRA: NICE PERK IF YOU CAN GET IT

BUREAUCRATS IN BRUSSELS have long enjoyed the kind of fringe benefits that would make even Jack Welch envious. Special tax rates, generous pensions, unchecked expenses, and payments for simply showing up to work are just a few.

Now, pampered Eurocrats can add cut-price rations of Viagra to their list of lavish perks. The European Union's in-house medical insurer, La caisse des eurocrates, which covers the 45,000 officials who work for EU institutions, said late last year it would refund 85% of the prescription cost. Unlike the U.S. or Britain, most European countries do not

cover Viagra under the government-funded medical plans. Loath to miss a chance to impose a quota, though, the EU is covering the cost of only six Viagra pills, or about \$56, each month.

Although the EU will reveal the number of im-



COVERED: EU officials

tent Eurocrats using the benefit, a spokesman stresses that coverage is limited to those whose condition results from a serious illness, such as diabetes or prostate trouble.

Kerry Cape

THE BIG PICTURE

I'LL TAKE WASHINGTON, THEN MANHATTAN

Overseas real estate investors think the U.S. is still a good bet, and plan to increase new U.S. investments by 27% this year. The most attractive cities:

WASHINGTON

NEW YORK

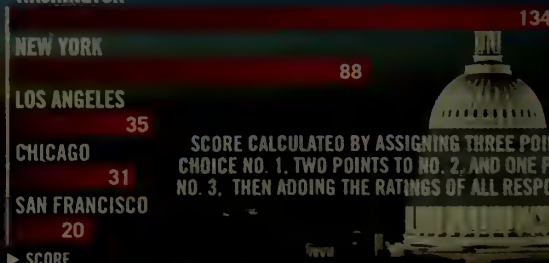
LOS ANGELES

CHICAGO

SAN FRANCISCO

SCORE

SURVEY OF 72 OVERSEAS REAL ESTATE INVESTORS, RELEASED JANUARY 2003
Data: Association of Foreign Investors in Real Estate/Kingsley Associates



SCORE CALCULATED BY ASSIGNING THREE POINTS TO CHOICE NO. 1, TWO POINTS TO NO. 2, AND ONE POINT TO NO. 3, THEN ADDING THE RATINGS OF ALL RESPONDENTS

Polls, surveys, and other items for consideration in this section should be sent to upfront@businessweek.com

The Spirit of Service.

You deserve it. We live it and breathe it.

You deserve great service. Of course you do. And you will get it. With Qwest®. Why? Great people. People who understand the difference between sales and relationships. People who believe in listening. Anticipating. Delivering. People who are dedicated to your success. Who know that the very best relationships create the very best solutions.

So what should this mean for you? Our Spirit of Service means the ability to perform and deliver unique solutions so your business can operate flawlessly. Yes, the Spirit of Service. It's our pledge. Our promise. A little something that sets us apart. Actually it's a big something. Something you'll be noticing in the weeks to come. In the years to come.



MANAGED SOLUTIONS

DATA SOLUTIONS

VOICE SOLUTIONS

INTERNET SOLUTIONS

WEIGHING IN ON THE BUSH PLAN

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS:
 Joyce Barnathan, Frank J. Comes, Robert J. Dowling, Kathy Rebello
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Peter Elstrom, Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Jane A. Sasseen, Ciro Scotti, John Templeman, Steve Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Arnst, Stephen Baker, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehring, Seymour Zucker (Sr. contributing ed.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.); Michael S. Serrill (Sr. ed.); David Rocks, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe), John Koppisch (Int'l. finance)
ASSOCIATE EDITORS: Robin Ajello, Dan Beucke, Diane Brady, Nanette Byrnes, Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gerry Khermouch, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: Spencer E. Ante. E-Business: Timothy J. Mullaney. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowry. People: Susan Berfield. Personal Finance: Lewis Braham, Carol Marie Cropper, Susan Scherrek, Anne Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports Business)
STAFF EDITORS: Jennifer Merritt, Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Aletha Davies, Doug Royalty (Sr.); Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief), Céline Keating, Robert J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.); Jamie Elsis, Edith Gutierrez, Ron Plyman (Asst.). Graphics: Joan Danaher (Director); Rob Doyle (Deputy dir.); Laurel Dauris-Allen, Joe Calviello, Alberto Mena, Ray Vella; Eric Hoffmann. Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), Neal Fontana. Nita Le, Rich Michiel, Leo Nleter, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne D'Aprix, Kathleen Moore, Andrew Popper, (Assoc.); Sarah Greenberg Morse (Asst.); M. Margarita Eiroa (Traffic mgr.); Burt Hughes, Mindy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.). Karen Butcher, Francisco Cardozo, Thomas R. Dowd, Stephen R. Lebron, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Ilse V. Walton (Edit map mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Y. Steve Ben-Ari, Yo-Lynn Hagood, Steven McCarthy, Anoop Srivastava, Craig Sturgis, Mauro Vaisman
ONLINE: Michael Mercurio (Managing ed.), Arthur Eves (Creative dir.), A. Peter Clem, John A. Dierdorf, John Johnsrud; Will Andrews, Heather Barry, Jaime Beauchamp, Jane Black, Joleen Colpa, Roger Franklin, Brian Hinde, Olga Khariif, B. Kite, Matt Kopit, James Kutz, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Amey Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksanaj
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad. Boston: William C. Symonds (Mgr.), Faith Keenan. Chicago: Joseph Weber (Mgr.), Roger O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Berner, Pallavi Gogoi, Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kenwin (Mgr.), David Welch. Los Angeles: Ronald Grover (Mgr.), Larry Armstrong, Christopher Palmeri (Sr. correspondents), Arlene Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. Hof (Mgr.), Linda Himelstein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O'C. Hamilton, Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.); Rich Miller (Sr. writer); Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. correspondents); Amy Borrus, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Woellert, Catherine Yang; Douglas Harbrecht (Online: Sr. news ed.), Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Christine Tierney. Hong Kong: Mark L. Clifford (Mgr.), Frederik Balfour, Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Geri Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.). Carol Mattlack, Andy Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Ihwan. Singapore: Michael Shari (Mgr.). Tokyo: Brian Bremner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kunii
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager: Barbara Boynton. Communications: Heather Carpenter, Christine Fountaine, Andrew Palladino, Nancy Sheed. Information Services: Jamie B. Russell (Director), Susann Rutledge (Research mgr.), John Cady (Technology mgr.), Fred Katzenberg, David Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summerson

Opinions on our Jan. 20 "Class warfare?" Cover Story on the Bush tax plan were strong, for and against. Readers elaborate below. Plus, readers cast their votes online in response to our question: "Do you favor or oppose the Bush tax plan?" We report the results in Up Front (page 12).

GIVE IT A CHANCE

Since when did you become Democratic Party pollsters? They routinely ask loaded questions, such as the one on your cover: "Suppose the rich get richer, and income equality gets worse. Time to vote: Favor the Bush plan. Oppose the Bush plan." The top 5% of income earners already pay over 50% of income taxes. The top 1% pay a greater share of income taxes each year. Millions of working poor at the low income end pay zero income taxes. (How do you cut zero taxes?) Most dividends go to retired people, who are by no means rich and could use the extra income.

I agree that it is better to allow businesses to write off dividends rather than give investors a tax break—why don't you trumpet that solution instead of reviving populist envy? Besides, what's in it for President Bush? Who ever got elected by appealing to a 5% minority?

Gary Alexander
Rockville, Md.

I sent you my vote in favor of the tax cut on dividends, and I wanted to tell you that I am not a millionaire. I

am a 70-year-old retired widow worked many years as a secretary the days when you worked a week for less than it takes to spend the supermarket in 15 minutes to I get Social Security, but I depend dividend income. If this tax cut on dividends helps me as well as the rich have no problem with that!

Patricia Rubenstein
Philadelphia

Your cover says "suppose the rich get richer and income inequality gets worse" like that's a bad thing. With the collapse of communism, we saw the

equalization of income brought economic collapse. Looking at the success of the American system in recent decades, it appears that the more inequality the better the economy performs for all sectors. Wouldn't that just burn the Left!

Mark Warren
Belleair, Fla.



CLASS WARFARE?

Suppose Bush's tax plan works: It raises long-term growth, reduces unemployment, boosts workers' wages, and eventually cuts a rising deficit to manageable levels. Good, right?

Now also suppose the rich get richer, and income inequality gets worse. Time to vote:

- ☐ Favor the Bush plan.
- ☐ Oppose the Bush plan.

CRONY CAPITALISM

The Bush team could not have come up with a worse plan. Debt and equity will not be on equal footing, and the tax code will become exponentially more complicated: Interest paid will be deductible and dividends, not, while interest received will be taxable and dividends received, not. By doing it the way, because nearly everyone (except the super-rich) owns stocks in tax-deferred accounts, they can benefit the top 1% at the expense of the bottom

PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carvalho
VP, MARKETING: Patricia Crocker France

VPs, SALES: Mark A. Flinn (Eastern region and BWT), Grant A. C. (Midwest reg.), Robert J. Maund (West reg.), Lou Tosto (Eastern reg.), **VP, INTERNATIONAL/NORTH AMERICA SALES:** Rik Gates
VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maraviglia
VP, MANAGING DIRECTOR-ASIA: Alan Lammin
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, CONSUMER MARKETING: Joyce Swingle
VP, BUSINESS DEVELOPMENT: Geoffrey D. Broderick
GENERAL MANAGER, BUSINESSWEEK ONLINE: Peggy White

The McGraw-Hill Companies

BusinessWeek
 FEBRUARY 10, 2003 (ISSN 0007-7135) *** 3819

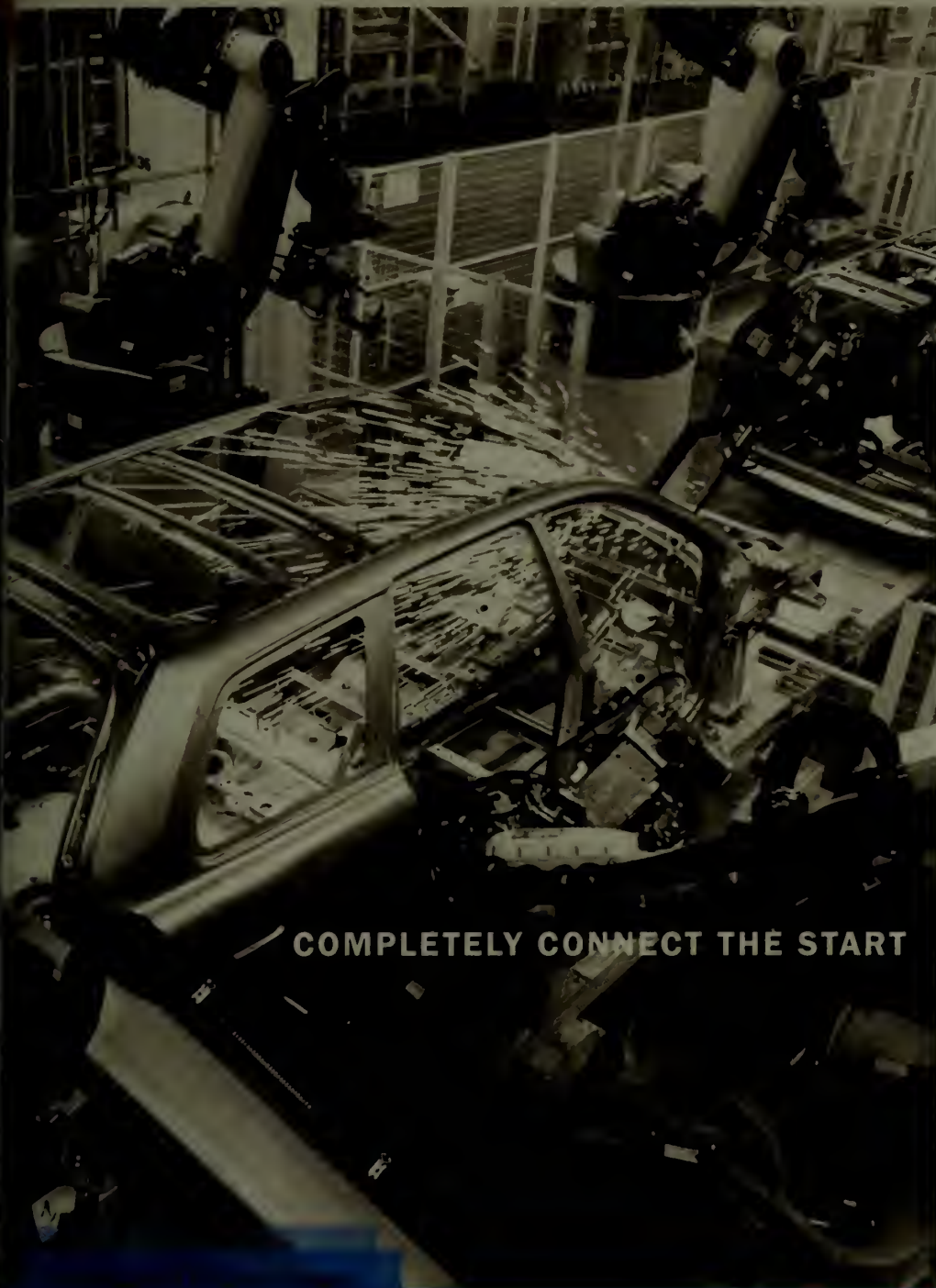
Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948). Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127089; Int'l 2300127089. U.S. subscription rate: 1 year \$59.97; 2 years \$99.97; 3 years \$119.97. Canadian subscription rate: 1 year U.S. \$135.00, Brazil 1 year U.S. \$150.00, all other Latin America countries 1 year U.S. \$170.00; 2 years U.S. \$250.00. Outside of U.S., Canada and Latin America: U.S. \$190.00 per year. Single copies/back issues: \$3.95. Call 1-800-228-5847 or email: businessweek@mcgraw-hill.com. Subscriber Service: 1-844-635-1201. TDD: 1-800-554-1579. Postmaster: Send address changes to BusinessWeek, P.O. Box 3235, Boulder, CO 80522-3235. Periodicals postage paid at New York, N.Y., and at additional

mailing offices. Canada Post Publication Mail Agreement Number 400129.

Registered for GST as The McGraw-Hill Companies, Inc. GST #R123079. Copyright 2003 by The McGraw-Hill Companies, Inc. All rights reserved. Registered in U.S. Patent Office. European Copyright Center, McGraw-Hill, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 8483.

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, Chairman, President, and Chief Executive Officer; Kenneth M. Vittor, Executive Vice President and General Counsel; Robert J. Bahash, Executive Vice President, Chief Financial Officer; Frank D. Penglase, Senior Vice President, Treasurer.

PHOTOCOPY PERMISSION: Where necessary, permission is granted to the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$2.00 per copy of each article. Send payment to the CCC. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address requests for customized bulk reprints to BusinessWeek Reprints, 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3148. ISSN 0007-7135/00/0000-0000. PRINTED IN THE U.S.



COMPLETELY CONNECT THE START



TO THE FINISH.

.NET connected software from Microsoft quickly connects all aspects of your business. Align your operational systems and sales systems, and your business can work, react, and think as one. .NET connected software from Microsoft seamlessly ties all your data, devices, systems and business processes together, from factory floor to sales floor. For more information, go to microsoft.com/connectedcompany **Software for the Agile Business.**

Microsoft®

Readers Report

99%. And they would accuse me of class warfare for pointing this out!

Ken Smith
Houston

The transfer of wealth to the rich through the President's "tax plan" will only add to anger of many struggling Americans. I'll be one of them.

Fritz Milas
Long Beach, Calif.

"Class warfare" could well have been entitled Crony Capitalism. Under unrestrained capitalism, wealth naturally flows to fewer and fewer people as those that have, get more. Even under current taxation, the few have absorbed a disproportionate amount of the nation's wealth, and Bush's proposal only accelerates this process while tossing crumbs to the public.

Jim Parker
El Paso, Tex.

QUESTIONING THE QUESTION

I am disappointed that a magazine for sophisticated business execs would put on its cover a question that would flunk it out of any beginning management course. The right question for a manager—and Congress as well—is not a simplistic favor or oppose the Bush plan. Rather, is there an alternative that does the positive things you list even better and with fewer negative consequences for income inequality?

Albert F. Appleton
New York

Did you ever notice that the people criticizing the use of the term "class warfare" are usually members of the class winning the war? I have yet to hear a factory worker, nurse, waitress, cashier, etc. criticize politicians who point out the unfairness of the President's plan or complain that it is "class warfare."

Lawrence R. Dworkin
Wallingford, Pa.

The real question is whether we should bake a bigger economic pie or obsess over the relative size of the slices. Recent experience around the world suggests that a dynamic and growing economy often exacerbates income disparities, while economies focused on redistribution tend to grow much more slowly. In other words, we can't have our pie and eat it, too.

Richard Kuklis
St. Michael's College
Colchester, Vt.

THE ECONOMY WON'T GET A BOOST

While it makes sense to eliminate the double taxation of dividends, the argument that such measures will stimulate investment spending is completely wrong. Encouraging people to buy equities will boost stock prices, but the vast majority of the new money flowing into the stock market will go to the owners of existing stock, not to the companies that issued the stock originally. Only new offerings of stock will help finance investment in real capital goods, and then only if companies believe they need additional capacity. The Bush plan will benefit only those few individuals who own most of the financial assets.

The supply-side arguments for giveaways to the wealthy were never based on sound economic theory and don't deserve another hearing. We don't need a war between the classes. We need an honest debate about the real benefits and losses from changes in tax policy.

John R. Sellers
Harrogate, Tenn.

The dividend-tax-elimination part of the Bush plan is the wrong tool for the job of economic stimulus, with risky implications from a long-term budgetary point of view. The time frame of the tax-cut package (about 10 years) is also too long. The U.S.'s unexpectedly swift economic slowdown and the return of large budget deficits since the final years of the Clinton Administration should remind us of how limited our forecasting ability still is. Government economic policy should humbly reflect this lack of perspicacity.

Ralph I. Sato
Honolulu

IT'S SPENDING THAT STIMULATES

President Bush's so-called stimulus plan is not an economic-stimulus plan at all but rather a tax scheme to shift more income to the rich. What the U.S. economy needs is a short-term jobs-and-stimulus package that would boost gross domestic product by 4% or more in 2003—approximately \$400 billion—and directly create 4 to 5 million more jobs (there being nearly 9 million unemployed). Standard macroeconomic models of the U.S. economy generally use a fiscal spending multiplier of 2; the federal government would have to increase its spending annually by \$200 billion to boost the GDP by 4% in 2003.

Such a \$200 billion spending program to create jobs could include, for example: \$100 billion to fund 3 million temporary

(\$25,000 a year) jobs administered by state and local governments, \$50 billion in Medicaid grants to state governments, and \$50 billion to states and local governments for education and local and emergency personnel (as promised by President Bush but never delivered under the Homeland Security act).

John Reec
Arlington,

The Reagan tax cuts did not stimulate the economy. That cash went to gold, real estate, art, etc. It was the Reagan (and Congress) spending that got the economy going. Bush I was criticized for violating his "no new taxes" vow, but those taxes created the war. Clinton rode to claim credit for deficit reduction. A Bush I-type tax increase may not be called for, but the proposed Bush II tax cut will only worsen the deficit and not stimulate the economy. If the economy benefits from Bush's spending, will the credit be given to the tax cut, à la Reaganomics?

And who gets credit for the deficit?
Richard Anger
Cockeysville, Md.

UNINTENDED CONSEQUENCES

I am a little surprised that you did mention the Bush plan's impact on the municipal bond market. I do not think most state and local governments would like to compete against corporate dividends on a head-to-head basis. Perhaps the President has decided to limit the ability to borrow money?

Karl Kne
Los Altos, Calif.

Investment decisions are not made solely on the basis of available cash. They're largely driven by potential returns. If the economy continues to show untaxed dividends will likely end up on shore or in assets that don't produce significant numbers of jobs. Haven't you learned that trickle-down...doesn't?

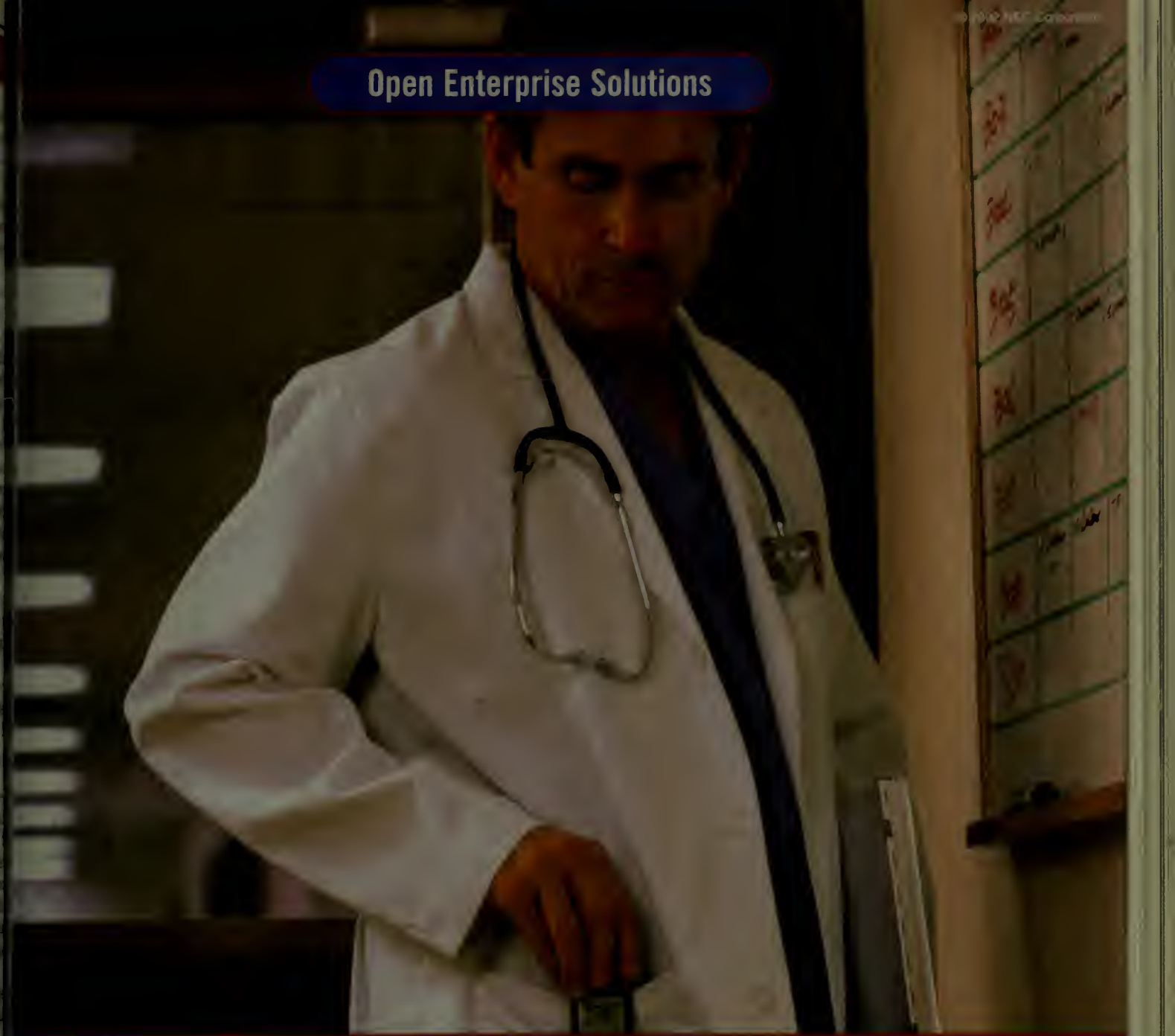
Peter Harsha
New York

It will be interesting to see whether companies that have moved their headquarters offshore to avoid corporate taxes will be shunned by investors.

Dale W. Bronste
Hurst, Tex.

A NEW CEO PAY GAMBIT

Now that large stock options and bonuses have lost credibility for overpaying corporate executives, leave



© 2002 NEC Corporation

Open Enterprise Solutions

Networks that empower people to perform.

NEC can help take your business to new levels of quality, satisfaction and productivity. With innovative technology from NEC, you can migrate your current network to converge voice and data. Advanced IP telephony from NEC means information can be shared. Access and security controlled. Service enhanced. And costs reduced. All while protecting your investment in your current infrastructure. It's just one more way NEC innovation can empower competitive advantages for your enterprise. From networking, systems integration and custom semiconductor solutions, we empower people through innovative technology. Call 1.800.338.9549 or visit www.necus.com.

Empowered by Innovation

NEC

Readers Report

to the Bush Administration to find another way. Since corporate execs frequently own substantial shares of their company stock, untaxed dividends become substantial untaxed payments to these executive shareholders. Since they're tax-free—and dividends may be paid even when a company isn't particularly profitable—this gambit is even better for execs than bonuses based on profits.

Philip Mason
Framingham, Mass.

WOULDN'T THIS BE BETTER?

Cut taxes on stock dividends, yes, but by giving each shareholder an exemption only on the first \$5,000 of dividends received each year, regardless of which company was the payer. This would avoid most of the drawbacks and retain many of the benefits of the Bush plan and could be sold as encouraging the little guy to buy stocks. Who could object to that?

Robert B. Houston
Arlington, Va.

I believe that a fair tax policy would require that those who have the use of income should pay the tax on that income. I suggest that the double taxation of dividend monies be eliminated by allowing corporations to treat funds paid in dividends as expenses, just as they treat interest payments as expenses. After all, both dividends and interest are payments to someone for the use of their money.

Frank R. Klein
Addison, Tex.

It would make far more sense to raise the ridiculously low cap on the amount of capital losses that investors can take as write-offs. The \$3,000 limit does not come close to the losses that the average investor has suffered.

George Schwartz
Newtown, Pa.

No capital-gains taxes should be paid by a person or a business entity selling one investment in order to buy another. The capital-gains tax of 20% gives the government our unearned income made with after-income tax dollars. Another double taxation, in my opinion.

David C. Lawrence
Pleasant Hill, Calif.

You should be focusing on the Alternative Minimum Tax (AMT) for those people who really are "middle income." When tax rates are reduced, these peo-

ple will find themselves facing the AMT—which neither the President nor Congress have eliminated. The issue is not rich vs. poor, nor income equality. Congress needs to kill the AMT, approve President Bush's plan, and reform the tax code.

David S. Mohler
Dayton, Ohio

MCCAIN'S MUDDLED THINKING

Re: "The critics: A fight already lost?" (Cover Story, Jan. 20): It's a shame. Dividend policy is held captive to politics. Both Joseph I. Lieberman (D-Conn.) and John McCain (R-Ariz.) do their best to pit the working class against the investor class, but shouldn't the purpose of good public policy be to transform the working class into the investor class? That way, we might make capitalism work for people rather than making people work for capitalism.

Michael Harrington
Santa Monica, Calif.

Note to Senator McCain: It is 2003. The middle class is the investor class. Please get in touch or get off the stage (again).

John Steven Reel
Marion, Tex.

BY THE WAY, HATE YOUR COVER

A few years ago, the business media proclaimed that the business cycle, including recessions, was obsolete because of the information-technology boom. Now, similarly misguided, you declare that the social aspects of economic policy, which you label "class warfare," are equally passé. American history has shown that unless fairness, both economic and social, is respected, a political as well as social price will be paid.

Assume that the social contract is obsolete at your own risk.

Diana d'Ambra
Maplewood, N.J.

"Class warfare" is in the minds of the media only. Anyone can earn what they want. The rich pay more taxes no matter how you look at it. I favor the Bush plan—and my annual income is less than \$30,000 a year because I choose to do what I do for a living.

And I threw the magazine out.

Margaret Long
Millbrook, N.Y.

BusinessWeek has increasingly (like the rest of the right-wing media) become *Pravda* for the Republicans and

the rich of this country. Most divide that the non-rich receive are in untaxed retirement accounts. So this plan would change that situation one bit. If companies want to invest in expanding economy, they can do that now with paying out dividends at all.

Increasingly, the rich want a class to fight their oil wars for the while preferring to relocate themselves (for tax purposes) offshore. Class warfare? Traitors is what they are.

Scott Fraser
Santa Barbara, Ca

The name *BusinessWeek* implies you will be covering business. It is not the government's role to allocate the wealth of the nation. Nowhere in the Constitution does "equal outcomes" appear. Keep your stinking liberal social engineering ideas to yourself.

Don R. Sherwood
Boulder, Co

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archives start in 1991 are available on the World Wide Web at: www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

We prefer to receive letters via e-mail, without attachments. Writers should disclose any connection or relationship with the subject of their comments. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

E-mail: bwreader@businessweek.com

Fax: (212) 512-6458

Mail: *BusinessWeek* Readers Report, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>

(click "Manage Your Account")

For individual subscriptions, corporate subscriptions, and other inquiries.

Phone: (800) 635-1200 Fax: (641) 842-6101

E-mail: bwcustomerservice@needata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

E-mail: bw_group@businessweek.com

Latin America

Phone: Int +44 1444 475 649

Fax: Int +44 1444 475 506

E-Mail: Businessweek.subs@qss-uk.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

E-mail: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use;

\$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

E-mail: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm



OH MICHAEL. YOU SHOULDN'T HAVE.



OH MICHAEL.

ANY SIZE. NAUGHTY IN A 1 CARAT OR MORE. MAKE A BIGGER STATEMENT.
FOR THE ONE WHO'S ALWAYS A DIAMOND FOREVER.



A DIAMOND IS FOREVER

INVENTING JAPAN, 1853-1964
By Ian Buruma
Modern Library • 194pp • \$19.95

WHY JAPAN CAN'T GET ITS GROOVE BACK

Japan is in a cultural funk. Its economic dynamism is long gone, and no imaginative political leadership has emerged to end its decline. The country needs to hit the restart button, redefine itself, and break free of insularity and conformity. But what are the origins of its problems? For answers, a good place to start is the brief and engaging *Inventing Japan* by longtime Japan-watcher Ian Buruma.

Proving that less can be more, Buruma takes fewer than 200 pages to artfully condense a century of modern Japanese history, from the Meiji Restoration of the late 1800s to the 1964 Olympics. This isn't a work of earth-shattering scholarship, nor does it pretend to be. Serious students of Japan will recognize the influence of such works as *Hirohito and the Making of Modern Japan*, by Herbert P. Bix, and John W. Dower's *Embracing Defeat: Japan in the Wake of World War II*.

What makes Buruma's book valuable is its lively prose and synthesis of numerous theories regarding the making of modern Japan. The country has repeatedly failed to develop a functioning democracy, he says, leaving key decisions in the hands of a remote and unaccountable elite. The author also considers Japan's long identity crisis, marked by frequent outbursts of violent xenophobia. Its habit of inventing itself via ideas borrowed from other cultures has often left the country floundering for national direction. Since World War II, in particular, Japan has failed to discover its place in the world, instead wallowing in "an infantile dependency on the United States."

Buruma starts his tale in 1853, with the arrival in Edo Bay of U.S. Navy Commodore Matthew Perry's heavily armed "black ships," which had come to open up Japanese ports. That marked the beginning of Japan's confrontation

with a technologically superior West and of its gradual separation from its longtime cultural mentor, China. The culture clash that followed gave rise to social upheaval and a civil war that brought down the Tokugawa Shogunate's military dictatorship, established the Emperor Meiji as the divine ruler, and produced a new constitution based on Prussia's authoritarian model.

The system had several shortcomings: Its architects were "steeped in the samurai ethos of loyalty, obedience, and military discipline." But the mortal flaw, in the author's view, was the setup's sheer vagueness and inherent contradiction. The Emperor, though divine, was to leave policymaking to the bureaucrats. But the military owed their allegiance to the August One and not to the civilian government. The politics of smoke and mirrors, still characteristic of Japan, owes much to the Meiji era.

The period did produce some gifted intellectuals. Buruma is a fan of Yukichi Fukuzawa, an educator, advocate of Western-style learning, and founder of the academy that later became Keio University. Yet it was a dangerous time to question the culture's reflexive conformism and nativism: There were numerous assassinations of writers and others expressing liberal political views. Buruma asserts that the country's political evolution never kept pace with its rapid industrialization and the military advances that led to its surprising victory in the 1905 Russo-Japanese War.

That would become appallingly clear as, in 1910, Japan annexed Korea and, after World War I, grabbed Germany's colonies in China. The lack of civilian control over Japan's increasingly radicalized military set the stage for the

Manchurian Incident of 1931, in which Japanese officers faked an attack on Chinese warlords to justify a brutal grab in China. That, in turn, would lead to confrontation with the U.S.

The forces that led to Pearl Harbor are complex, and Buruma's take on the Pacific War is evenhanded. Yet it is clear to him that wartime Japan, by the nervous and impressionable Emperor Hirohito, was badly mismanaged. Hirohito was accountable to nobody and made disastrous decisions. Not least, he waited far too long to surrender.

It turns out that, despite some worthwhile economic and political reform after the war, postwar master General Douglas MacArthur and his band of reformers didn't serve the country much better. The Emperor repudiated his divine status and faded in importance. But he was forced to abdicate or take any responsibility for Japan's wartime policies. After the Cold War commanded Washington's attention, the reform drive stalled in Japan. Eventually, a powerful alliance emerged among political conservatives, Big Business, the ministries, and even the criminal underworld.

By the mid-1960s, when Buruma's narrative ends, Japan was fixated on little other than high-speed economic growth. And by following the lead of the U.S., it neglected to develop a foreign policy of its own. What's more, the Japanese people never worked through the implications of the country's World War II aggression: Amid such prosperity, what was the point? Then, Japan's speculative economic bubble burst. The country is still prosperous, but its future is uncertain.

Buruma finds that, as in the Meiji period, Japan today seems to be waiting for some outside force to compel it to change. He looks forward to the day "when Japanese free themselves and can finally bid the black ships farewell."

BY BRIAN BRENNER

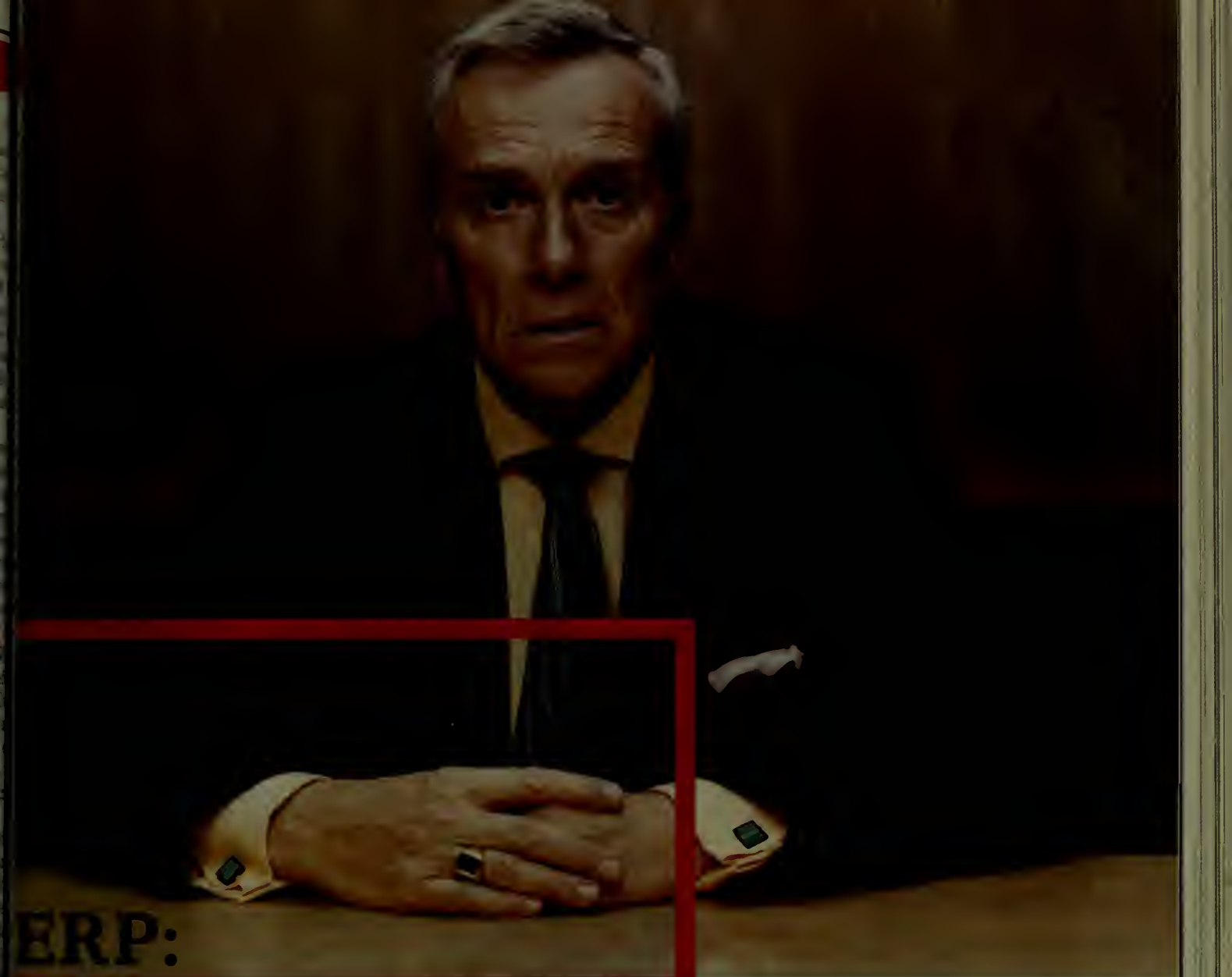
Brenner is Tokyo bureau chief.



BusinessWeek online

The *BusinessWeek* Best-Sellers of 2002 are available with the February 10, 2003, issue online at www.businessweek.com.

TWO PROBLEMS: A LACK OF DEMOCRACY AND "AN INFANTILE DEPENDENCY ON THE UNITED STATES"



ERP:

Sound made by CIO
when people see data
they shouldn't.

For people need access to information. You just don't want to give everybody access to everything. You need a secure identity management process. Novell's
Nsure™ solutions let you control access for all your employees and business partners. Quickly and easily. So you can stop worrying about who's seeing what
and start concentrating on more important things, like the bottom line. To learn how Novell's consultants and partners can apply their expertise to help you
increase security without decreasing access, call us at 1-800-764-3100 or visit <http://www.novell.com/nsure>. ☎ **WE SPEAK YOUR LANGUAGE.**

Novell.

BY STEPHEN H. WILDSTROM

tech&you@businessweek.com

SMART PHONES: TRY, TRY AGAIN



The two latest entries in this hybrid category left me wondering why anyone would choose them

The hybrid phone-PDA-wireless e-mail device is a new category that's still trying to figure out what it wants to be. Some, like the Microsoft Pocket PC Phone Edition or the forthcoming Tungsten W from Palm Solutions, are weaker as phones than as personal digital assistants or wireless data devices. The Palm-based Treo Communicators strive for balance between the functions of a phone and a PDA. And now there are two Palm-based "smart phones" from Kyocera Wireless and Samsung that put voice first.

The Samsung SPH-i330 (\$499 with activation from Sprint PCS) and the Kyocera 7135 (\$499 with activation from Alltel; a Verizon Wireless version is expected soon) are follow-ons to earlier models. There's an important difference, though: While the products are designed to emphasize their phone functions, they do take advantage of new higher-speed data networks that dramatically improve their e-mail capabilities.

The Kyocera looks like a slightly oversized flip phone. Folded, the 6.6-oz. gizmo is about 4 in. by 2.5 in. and a bit more than an inch thick. When opened, the top half contains a color Palm display, while the bottom part adds a data-entry area and the familiar Palm buttons to a standard phone dial pad.

Even though the 7135 is Kyocera's third try at a Palm-based phone, there is still woefully little integration between the Palm and the voice portions of the device. If you touch the display when in phone mode, you get this annoying message: "The phone application is not touch-sensitive." To which I can only ask: Why not? You can dial a number from the Palm address book, but, lacking the Handspring Treo's scroll wheel and quick-search functions, it's almost impossible to do it one-handed.

On the data side, the Kyocera can exchange messages with any standard Internet mail ac-

count. It also ships with a copy of Workst Desktop Edition from Wireless Knowledge, which lets you send and receive mail in Lotus Notes Microsoft Exchange corporate accounts. But think most users will find the lack of a keyboard an impediment to serious e-mail use, especially since the flip design's hinge gets in the way when entering Graffiti shorthand.

The Samsung, a bar-type phone that's 5.5 in. long, 2.3 in. wide, and 0.7 in. thick, has neither keyboard nor a phone keypad. Instead, the 5.5-in. device has a big color screen that provides touch-sensitive dial pad in phone mode and standard Palm display plus a Graffiti entry area in Palm mode. Buttons on the left side at least make it possible to pick a number to call from your phone list with just one hand, though not practical unless your address book is short. As with any Palm device, you can search the list by writing in the first letters of name, but you'll have to use the stylus.

The i330's big failing is in its software. Oddly, for a wireless-data product, the only e-mail program that is supplied is Palm's basic mail application, which allows you to sync messages with your desktop but not send or receive them over the air. For \$5 a month, you can add Sprint's Business Connections service, which gives you wireless access to corporate e-mail. But to get standard Internet mail, you'll have to add a mail program, such as Palm's own VersaMail (\$35), and go through the do-it-yourself installation.

DISCONNECT

There's woefully little integration between the Kyocera 7135's voice and Palm functions

thing not usually required with a Palm-based handheld—I had to call tech support before I could sync with my PC. As it turns out, a critical detail on the need to change a default sync setting was left out of the instruction manual—something

After using both of these products, I was left wondering why anyone would prefer either to a Treo. I suppose the Kyocera appeals to people who will use it mainly for voice and who really want a standard 10-key dial pad, or to those who want to stick with their wireless carrier and don't have a better smart-phone choice available. The case for the Samsung is even harder to make given its software deficiencies and the fact that Sprint offers the Treo 300 for \$50 less after rebate.

The smart phone is a concept whose time will come, but it's going to take manufacturers a few more tries. So far, Handspring has come the closest to getting it right. I hope the other keep these experiments coming.



BusinessWeek online

FOR A COLLECTION OF PAST COLUMNS and online-only reviews of technology products, go to Technology & You at www.businessweek.com/technology/

PRESSES CAN'T STOP when a newspaper moves to IP telephony. So *Seattle Times* tapped Avaya for a performance voice and data network reliable as voice alone. In the state of Avaya, you get to IP telephony

on your own path, at your own pace. And here's the really big news: for the cost of a standard PBX upgrade. Avaya Enterprise Class IP Solutions (ECLIPS), powered by Avaya MultiVantage™ Software, are standards-based. They're open to evolving your existing

network. They'll even play nice with your multi-vendor environment. *The Seattle Times* saved over \$180,000 in related costs the first year alone. Without missing a deadline. Visit avaya.com/ip to access our ROI tools for IP telephony. Or call 866-GO AVAYA.

IP Telephony

Contact Centers

Unified Communication

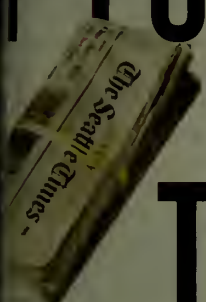
Services

Seattle Times goes

P FOR COST OF PBX UPGRADE!

Read all about it in

THE STATE OF AVAYA.



BY GARY S. BECKER

THE DIVIDEND TAX CUT WILL GET BETTER WITH TIME



JUST WAIT:
The benefits don't amount to much in the short term. But killing the tax will eventually help the middle class and spur growth

President George W. Bush's proposed elimination of the tax on dividends has been dissected and criticized in great detail. But one crucial aspect has received scant attention: the big difference between its short- and long-term economic impact. While this tax cut will not yield immediate benefits, it will boost the economy in the longer run.

Here's why cutting the tax on dividends is a good idea: Corporate profits in the U.S. are taxed at progressive rates that rise to 35% for larger corporations. Profits distributed as dividends to shareholders are taxed again at the marginal income-tax rates appropriate to each recipient. Since retained earnings add to company wealth, they, too, are taxed again but at the much smaller tax rate on realized capital gains. Almost all other industrial nations provide full or partial tax relief from dividend taxation. Some allow tax credits for dividend income, while others tax dividends at lower rates than other income.

However, any short-run stimulus from eliminating the dividend tax would be too weak to have a significant benefit to the economy. In addition, the tax change would initially help higher-income families more than lower- and middle-class families, because ownership of equities and other capital is concentrated among richer families. This holds true even though direct or indirect ownership of equity over the past 20 years has spread to about half of all households, helped by the growing importance of individual retirement accounts, 401(k) plans, and other tax-deferred accounts.

Fortunately, the longer-run effects of eliminating the dividend tax on both the economy and the distribution of income are much more favorable. Evidence compiled by my University of Chicago colleague Casey Mulligan indicates that changes in taxes on capital have large effects on the capital stock over the long run. It turns out that real aftertax rates of return in the U.S. have hovered around 5% to 6% over the past half century, despite large changes in the effective tax rates paid on profits, incomes, and capital gains.

What happened was that as taxes on capital went up or down, aftertax returns adjusted through changes in the amount invested. For example, higher taxes on capital meant that investment declined and the capital stock grew more slowly; the process worked in reverse when taxes on capital decreased, as would happen should the tax on dividends be eliminated. Much of the adjustment in investment appears to have

taken place within several years after taxes on capital were changed.

Since greater corporate investment in plant, machinery, and research and development boosts the long-term rate of economic growth, removing the dividend tax would stimulate expansion a few years hence. Yet there would be little impact on gross domestic product in the short run.

Greater investment and a higher capital stock also increase wages by raising the productivity of labor. Higher earnings lead more men and women to seek work, instead of looking to retire or stay out of the labor force. So in contrast to the short-term impact on income distribution, eliminating the dividend tax in the longer run would mainly benefit not the rich but low- and middle-income families, because they receive most of their income from wages. In fact, the benefits of lower taxes on capital, shifted over time from owners of capital to suppliers of labor, as most of the historical evidence seems to show.

Eliminating the dividend tax would reduce budget deficits significantly in the short run, but this change in tax policy would have a much smaller impact on deficits a few years down the road. The 1990s experience with surpluses and deficits at both federal and state levels shows that deficits tend to raise future government interest payments, but they also hold down future government spending in other areas. Surpluses have the opposite effect. Deficits created by lower tax rates may be the only effective way to curb the perpetual desire of politicians and interest groups to increase outlays on their favorite projects.

The double tax on dividends prompted companies over time to reduce their dividend payout ratios. These have fallen sharply during the past two decades. Most companies would not immediately change their dividend policy if this tax were removed, yet an increasing number over time would be forced by shareholder demand to shift toward larger dividends. In addition, higher payout rates would help monitor corporate governance by forcing management to reenter the capital market more frequently to finance investments and expansions.

The case for reducing taxes on capital is powerful, and eliminating the double tax on dividends is one way to do this. Removing that tax would, in the long run, raise the growth of capital, improve the productivity of labor, assist in monitoring corporate behavior, and help control government spending.

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution.

JAMES C. COOPER & KATHLEEN MADIGAN

WILL WAR BRING DOWN THE RICKETY RECOVERY?

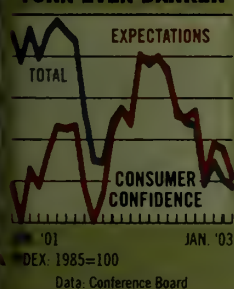
With nerves on edge, only the housing market looks solid

U.S. ECONOMY

Pollyanna must feel very lonely right now. A new round of pessimism is ruling the day as war with Iraq appears more imminent. Consumers are less confident about the economy. Business executives are so skittish they can't invest in their companies' futures. And wary investors are sending stock prices tumbling. Could this atmosphere of gloom trip up the recovery?

That's the new worry. On the surface, the economy's prospects seem good. At the end of 2002, consumers were hanging in there, and home sales and construction were still going strong. Plus, the White House and the Federal Reserve are putting a massive amount of stimulus in the pipeline.

CONSUMER SPIRITS TURN EVEN DARKER



None of that may matter in early 2003, however, if the attention of consumers and businesses is riveted on military action in Iraq—with its possible unintended consequences. For months, the Iraq situation has been on the minds of the markets and economic forecasters, but now, this heightened level of anxiety comes at a bad time: just when the economy is trying to climb out from its fourth-quarter fit patch. The Fed recognized these risks at its Jan. 28 policy meeting, at which it left interest rates unchanged, but it did not hint at any further cuts in rates. It noted that "oil price premiums and other aspects of geopolitical risks have reportedly fostered continued strain on spending and hiring by businesses."

The reluctance of businesses to expand or add new inventories or increase their payrolls is a sign that business confidence remains in the dumps. This corporate paralysis adds to broader worries about the economy. Consumer confidence dropped in January, and expectations fell sharply (chart). And President George W. Bush's State of the Union address on Jan. 28 only focused more attention on the urgency of the Iraq issue.

CONSUMER SPENDING IS THE GLUE holding this rickety recovery together, and that's the key sector to watch early in 2003. The combination of job worries and rising energy prices is already draining consumer confidence. Now, louder war talk and its negative im-

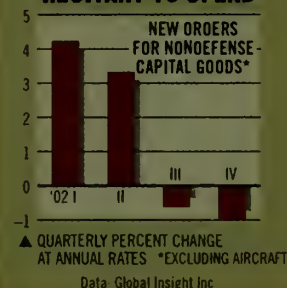
pact on the stock market are weighing more heavily on the consumer's psyche.

In January, the Conference Board's index of consumer confidence fell to a nine-year low of 79, from 80.7 in December. "With the threat of war looming, consumers have grown increasingly cautious about the short-term outlook," says the Board's Lynn Franco.

The good news is that, despite households' growing worries about the future, they noted a general improvement in their present situation. Their assessments of current job market conditions improved, perhaps related to the recent downtrend in new claims for jobless benefits.

But expectations tend to drive consumer spending. That index fell seven points, to 81.4, held down by concerns about future job gains. Still, the expectations index is above the 70-75 range when worries begin to slow spending. In fact, January surveys of retail chain stores show brisk activity.

BUSINESSES REMAIN HESITANT TO SPEND



THE TREPIDATION OF Corporate America is the biggest drag on this recovery. Recent numbers show that, after making slow progress in the first half of last year, businesses pulled back considerably in two critical areas last quarter: capital spending for equipment and outlays for inventories. Now, with the outlook unclear for the months immediately ahead, many executives will remain stymied and unable to help the recovery.

Through December, factory orders were going nowhere. In particular, core orders for capital equipment, which exclude the volatile ups and downs in commercial aircraft and defense, dipped 0.1% after falling 3.1% in November. For the quarter, orders declined after increasing during the first half of 2002 (chart). Core shipments of capital goods last quarter dropped for the first time in a year.

Relentless anxiety over Iraq, the economy, and profits is also slamming the stock market, which creates its own psychological drag on businesses and households. The Dow Jones industrial average has lost some 700 points since Jan. 14. Note, however, that the drop has occurred despite evidence that the recovery in corporate earnings continues to make good headway. *Busi-*

Business Outlook

nessWeek's preliminary tabulation of fourth-quarter corporate profits shows that income from continuing operations, excluding extraordinary items, is up 37% from the year before (page 30).

Another downdraft from Iraq is higher oil prices, with very large consequences for business costs and household budgets, especially given the very cold winter across most of the country. Oil prices continue to hover at around \$33 per barrel, up \$6 from only two months ago. Higher fuel costs will probably shave only a smidgen off first-quarter economic growth, but the bigger concern is what happens when the shooting starts. Every recession since the early 1970s has been preceded by a steep runup in oil prices.

ONE SECTOR THAT CONTINUES to buck the gloom-and-doom trend is housing. Fueled by 30-year fixed mortgage rates that are still below 6%, new single-family home sales rose 3.5% in December, to an annual rate of 1.08 million. Existing home sales, meanwhile, jumped 5.2%, to a 5.86 million clip. Both new and existing home sales reached new highs in 2002 (chart). As a result, a record 68.3% of households now own their homes.

Home sales are unlikely to make huge gains in 2003, but they probably won't collapse either. Mortgage rates will start rising again only when the credit markets sense that the Fed is ready to raise short-term rates, and that's a long way off. Meanwhile, income growth

should be solid enough to support homebuying. The biggest obstacle could be supply: In December, builders had only a 3.8 months' supply of new homes for sale, while the current inventory of existing homes would last only 4.2 months. Both are historically low levels.

Sparse inventories, however, are pushing builders to break ground on new projects. The Housing Market Index compiled by the National Association of Home Builders, which measures builders' assessments of market conditions, stood at 64 in January, down just a bit from December's 65. Taken together, the readings of the past two months are the highest since early 2000. The frigid weather might skew the government's January data on housing starts and construction jobs, but a return to more normal winter weather in February would allow the numbers to bounce back.

Until the tensions with Iraq are resolved, however, homebuilders may be the only optimistic group in the economy. The collective gloom among consumers, executives, and investors hasn't yet derailed the recovery. But right now, this economy has very little maneuvering room between expansion and recession, and cannot afford many missteps.



CANADA

THE INFLATION HAWKS ARE CIRCLING

The Bank of Canada has served notice. Unexpectedly strong inflation and an economy closer to its productive capacity than previously thought mean higher interest rates ahead.

At its Jan. 21 meeting, the BOC kept rates at 2.75% but took a more hawkish stance. After hiking rates by 75 basis points last year, Governor David Dodge said "a reduction in stimulus will be required" to bring inflation back to its 2% target. The central

bank now thinks inflation won't hit that target until early 2004.

The BOC's concerns were not assuaged by the news that consumer prices in December were up 3.9% from the year before.

While less than the 4.3% November rise, the slowing came largely from a one-time change in Ontario electricity pricing. Core inflation, the BOC's preferred measure, which strips out volatile items

such as fresh produce, gasoline, tobacco, and mortgage interest costs, also slowed to 2.7% from 3.1%.

Indeed, some deceleration in inflation in 2003 is expected. One-time events such as recent hikes in auto and home insurance premiums should

come to an end.

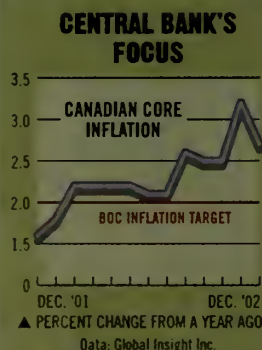
The economy is slowing, too. Fourth-quarter real gross domestic product probably rose at a 2% annual rate, as indicated by weak retail sales and factory invento-

ries. And the current quarter may be weaker still. Softer demand should curb broader price pressures in the short term.

But the BOC doesn't want to get behind the curve. It attributes the slipping economy to uncertainty over Iraq and other geopolitical risks and believes they will be largely resolved by midyear. So by the second half, price pressures could build as demand picks up at home and in the U.S., destination of 87% of Canada's exports.

For now, economists see a rate hike in June. But the BOC has warned that business expectations of higher inflation may affect wage deals and other decisions. If that happens, "the need for policy action by the Bank would be correspondingly greater," the BOC says, suggesting earlier moves.

By James Mehrling in New York





Nobody is more
demanding than
Daria's clients.

They want it immediately.
They're serious. They mean it.
Or else!

These seem like reasonable
demands to Daria.

Reliability and speed. Clients want it. You deliver it — with **FedEx Express**®. It's rapid, reliable, time-definite delivery from the people who created the modern express industry. Service options. Online tracking. A Money-Back Guarantee*. It's all part of the FedEx package. Need to get it there or else?

Don't worry. There's a FedEx for that.SM



STILL IN LIMBO

As President George W. Bush strode jauntily into the packed House of Representatives chamber on Jan. 28 to deliver his State of the Union speech, the Salesman-in-Chief faced two daunting and distinctly different tasks: He had to press his case against Saddam Hussein and convince an increasingly skeptical American and world public that Iraq's leader poses a clear and present danger to the U.S. He also had to dispel worries about the economy now spreading among consumers, companies, and investors that threaten to turn a soft growth patch into something far worse.

Going by instant opinion polls, Bush succeeded in mustering support for his bellicose stance toward Iraq. But when it came to calming fears about the economic outlook, he looks to have fallen short. Only about one in three of those surveyed by ABC News after Bush's big speech said they felt more confident about his handling of the economy.

Part of the problem, of course, is that Bush's twin goals are contradictory, at least in the short run. The threat of war with Iraq is hanging like a cloud over the economy. It's eroding consumer confidence. And it's dampening the animal spirits of business leaders and other risk takers who are the soul of a capitalist economy. Faced with the possibility—however slim—that a war with

Iraq could go horribly wrong and the oil prices could skyrocket, Corporate America is conserving cash and delaying plans to take on more workers, rebuild inventories, and step up capital investment. "The uncertainty of such an extraordinary event like war paralyze planning," says Gary C. Kelly, CFO of Southwest Airlines.

But growing uneasiness about the economic outlook isn't just a case of war jitters. The sudden burst of optimism with which the stock market greeted the new year wilted in late January in the face of a string of squishy economic statistics and a clutch of cautious, if not downright pessimistic, business forecasts. As one CEO after another ratcheted down earnings expectations for the



War fears, weak profits, and slow growth are pushing hopes of recovery back to the second half of 2003

Coming year, investors suddenly had to face the fact that the profits revival that was hoped for early in 2003 won't come until the second half—if then. The big fear: that the post-bubble U.S. economy will remain stuck in a twilight zone between full-fledged recovery and outright recession for yet another year. Iraq is a scapegoat," says strategist Szlo Birinyi Jr. of Birinyi Associates in Greenwich, Conn. "The news coming out of major companies is bad."

The sudden spate of grim news hit Wall Street hard. In just 10 days, the Dow Jones industrial average lost 10%. By Jan. 27, it had given up all of its gains since the first of the year and finished below 8000 for the first time in three months, though it later recovered

somewhat. Foreign investors, too, are increasingly dumping U.S. stocks—as well as the dollar—adding a sliding greenback to the economic woes. On Jan. 27, it touched \$1.09 to the euro, a 39-month low against the suddenly muscular currency.

For now, the potential for war is arguably the biggest drag on the economy. While companies have been holding back on capital spending since the boom collapsed in 2000, the increasing uncertainty over Iraq has further hobbled corporate decision-making. War jitters are clearly showing up in the numbers. Orders for nondefense capital goods (excluding aircraft) fell 0.1% in December after dropping 3.1% in November. "Because of the fear and uncertainty, every-

BEHIND THE GLOOM

Why has early-January confidence suddenly turned into pessimism?

IRAQ JITTERS The increasing likelihood of a war with Saddam has spooked markets and helped send consumer confidence to its lowest ebb in nine years.

PROFITS HICCUP Although cost-cutting helped boost average earnings of S&P 500 companies an estimated 13% in the fourth quarter of 2002, economists say profit growth will fall to an estimated 9% in the first quarter of 2003 and to 6% in the second.

SLOWING GROWTH Data due out Jan. 30 were expected to show that economic expansion slowed from 4% in the third quarter to below 1% in the fourth. Estimates are now being ratcheted down to 2% to 2.5% for the first half, and fears of a double-dip recession are returning.

WEAK CAPITAL SPENDING Worried about Iraq and seeing no uptick in demand, companies continue to delay new spending on plants and equipment.

POLITICAL UNCERTAINTY With President Bush's stimulus package running into stiff opposition in Congress and his Administration seemingly preoccupied with Iraq, confidence in his handling of the economy is plunging.

one is being cautious about spending," says DuPont CFO Gary M. Pfeiffer. "It's only prudent to defer anything that is deferrable." That's why he plans to spend just 40% of his \$1.6 billion capital spending budget in the first half.

Consumers, too, seem to be getting the jitters. After powering last year's recovery, free-spending Americans may finally be pulling back. Retail sales, excluding autos, were flat in December, compared with the previous month. And on Jan. 28, the Conference Board reported that its consumer-confidence index fell to 79, from 80.7 in December, the lowest level in nine years. "We're assuming the economic and competitive environment will continue to be difficult," says Karen Houget, CFO of Federated Department Stores Inc.

The bleak outlook is prompting companies across the spectrum to lower their earnings guidance. Cost-cutting helped average corporate earnings grow at a relatively robustly pace in fourth quarter, 2002—Thomson First Call is expecting gains of nearly 13%. But it sees profit growth falling to 9% in the first quarter and just 6% in the second. Worse, First Call figures that 7 of the 11 sectors that make up the Standard & Poor's 500-stock index will tally lower profit growth for the first quarter than analysts had expected as recently as January.

Add it all up, and the economy has stalled considerably. Data due out on Jan. 30 were expected to show that gross domestic product growth slowed to below 1% in the fourth quarter, following the 4% surge in the third, according to Morgan Stanley. And expectations that GDP growth would hit 3% to 3½% in the first half are now being trimmed to 2% to 2½% by some economists. That kind of growth almost certainly will mean more unemployment. David A. Wyss, chief economist at S&P, believes the jobless rate could hit 6½% by midyear, up from 6% now.

This combination of war jitters, weak profits, and slowing growth is affecting not just the stock market but the dollar, too. After dropping 18% against the euro in 2002—its worst annual performance since 1987—the dollar fell 3.5% more in January. Currency experts say the slide that started last February also reflects a longer-term cyclical downturn. Three years of stock market loss-

es and low interest rates are driving foreign investors back home or to higher-yielding assets elsewhere, such as emerging markets. The growing U.S. current-account deficit is also a problem. The gap is now as wide as 5% of gross national product—historically a trigger point for a dollar sell-off. "The currency will have to adjust," says Rebecca Patterson, senior currency strategist at J.P. Morgan Chase & Co.

Given the continued pall over the economy, the question is whether it will finally begin to gather the strength for a sustained rebound in the second half. Much, of course, depends on what happens in Iraq. Clearly, if things go badly or the U.S. gets bogged down, all bets are off. Oil prices would skyrocket, and investment would remain frozen. But what if the war is executed swiftly and uncertainty disappears? Optimists predict that a quick victory would lower oil prices, spark a market rally, boost confidence, and prompt businesses to dust off spending plans.

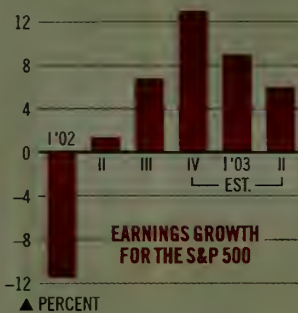
Perhaps—but it might not be so easy to resolve the economy's underlying problems. Excess capacity left over from the boom remains a major brake on growth. U.S. manufacturers are using just 73.6% of their facilities.

"We have a way to go," says S&P's Wyss. Consumers are becoming increasingly tapped out. Many corporations, too, remain saddled with heavy debt and weak balance sheets, curtailing their ability to expand. But ultimately, demand will be the big hurdle. Without a pickup in orders to fuel growth, the recovery will remain tepid.

Much will depend, too, on whatever stimulus is passed. In coming months, Congress and the White House will be locked in a death struggle over Bush's economic package, which opponents deem too expensive and insufficiently stimulative. If the economy remains weak, pressure for stronger short-term stimulus will grow. Once the horse-trading is done, perhaps by midyear, bipartisan support may grow for extra money for cash-strapped states. New tax breaks for business investment could also be added. But the only thing certain these days is uncertainty itself.

By William Symonds in Boston, with Rich Miller and Richard S. Dunham in Washington, and bureau reports

A MUTED RECOVERY?



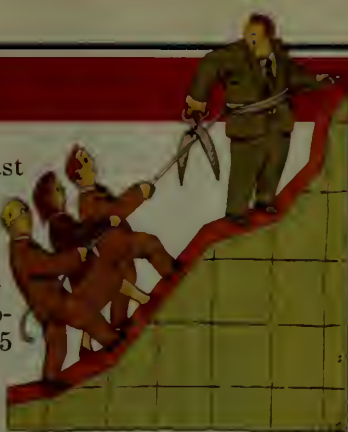
▲ PERCENT
Data: Charles L. Hill, Thomson/First Call

PROFITS

THEY'RE NOT AS GOOD AS THEY LOOK

Earnings have jumped since late last year, but that's due to cost-cutting, not growth

	CURRENT QTR \$ (MILLION)
INDUSTRIALS 321,612.0	
ABBOTT LABORATORIES	4,839.2
AIR PRODUCTS & CHEMICALS †	1,447.0
ALCOA	5,061.0
ALTRIA GROUP	14,464.0
ARCHER DANIELS MIDLAND ††	7,807.4
CATERPILLAR	5,377.0
CONOCOPHILLIPS	20,253.0
DELPHI	6,971.0
DUPONT	5,682.0
EASTMAN KODAK	3,441.0
FORD MOTOR	41,580.0
GENERAL ELECTRIC	34,963.0
GENERAL MOTORS	48,656.0
GEORGIA-PACIFIC	5,101.0
JOHNSON & JOHNSON	9,403.0
KRAFT FOODS	7,847.0
LOCKHEED MARTIN	7,780.0
MARATHON OIL	8,530.0
MAYTAG	1,127.4
MERCK	13,918.4
PFIZER	9,333.0
PROCTER & GAMBLE ††	11,005.0
SARA LEE ††	4,776.0
SCHLUMBERGER	3,433.8
SUNOCO	3,597.0
3M	4,138.0
TYCO INTERNATIONAL †	8,939.4
UNITED STATES STEEL	1,852.0
UNITED TECHNOLOGIES	7,215.0
VISTEON	4,543.0
WEYERHAEUSER	4,718.0
WYETH	3,814.0
SERVICES 114,088.0	
AMERICAN EXPRESS	6,196.0
AMR	4,190.0
BANK OF AMERICA	NA
BURLINGTON NORTHERN SANTA FE	2,301.0
CITIGROUP	22,796.0
DELTA AIR LINES	3,308.0
DOW JONES	396.8
FEDEX ††	5,667.0
FLEETBOSTON FINANCIAL	NA
GOLDMAN SACHS GROUP	5,048.0
J.P. MORGAN CHASE	NA
MBNA	NA



At first blush, the last three months of 2002 were kind to much of corporate America. Despite weak business conditions and a stalling economy, profits for the 85 companies in *BusinessWeek's* flash report were up 37%. Take out special charges, and income from continuing operations was up 35%, compared with previous year. But hold the hurrahs—there's less in these numbers than meets the eye. First, consider the context: Profits are

so far up largely because they are being compared with results in the final quarter of 2001, when earnings declined 56% over the previous year in the wake of September 11 and the slowing economy.

There's an even better reason not to get too excited: Much of the uptick in profits was the result of cost-cutting. With sales up a much lower 7%—the best performance in several quarters—most companies are wringing out profits by cutting costs.

Throughout the economy, they're shedding jobs, controlling capital spending, and keeping inventories lean. Indeed, the axe is falling across the board, from tech and retail to consumer goods and hospitality.

Of course, some sectors prospered the old-fashioned way: by selling more goods and services or raising prices. They include energy, health-care, and auto companies. But for most of Corporate America, cutting costs was the leading route to profitability—and one that's not likely to change anytime soon.

By Pallavi Gogoi, with Robert Berner in Chicago

% CHG.	EST. EPS (11/14/02)	REPORTED EPS	DIFF.		CURRENT QTR. SALES (MILLIONS)	% CHG.	QTR. PROFITS (MILLIONS)	% CHG.	EST. EPS (11/14/02)	REPORTED EPS	DIFF.
+13	0.54	0.40	-0.14	MCDONALD'S	3,899.2	+3	-343.8	NM	0.32	-0.27	-0.59
+2	0.56	0.40	-0.16	McGRAW-HILL	1,172.3	+5	134.9	NM	0.67	0.69	+0.02
+13	0.60	0.58	-0.02	MERRILL LYNCH	6,478.0	-14	603.0	NM	0.66	0.63	-0.03
NM	0.28	-0.15	-0.43	MORGAN STANLEY	7,570.0	-8	732.0	-16	0.79	0.67	-0.12
-18	0.94	0.85	-0.09	NEW YORK TIMES	840.2	+8	107.5	+45	0.67	0.69	+0.02
-13	0.21	0.20	-0.01	ROADWAY	1,074.1	+26	25.9	+92	1.44	1.37	-0.07
+83	0.66	0.88	+0.22	SCHWAB (CHARLES)	996.0	-6	-79.0	NM	0.08	-0.06	-0.14
+293	1.11	0.85	-0.26	SEARS, ROEBUCK	12,518.0	+2	848.0	+72	1.95	2.67	+0.72
NM	0.20	0.21	+0.01	SOUTHWEST AIRLINES	1,400.5	+13	42.4	-33	0.03	0.05	+0.02
-91	0.34	0.35	+0.01	SYSCO †	6,348.8	+14	184.6	+16	0.28	0.28	—
NM	0.68	0.45	-0.23	TENET HEALTHCARE ††	3,778.0	+11	315.0	+254	0.70	0.64	-0.06
NM	0.09	-0.01	-0.10	UNION PACIFIC	3,171.0	+5	378.0	+37	1.09	1.41	+0.32
-21	0.45	0.31	-0.14	UNITED PARCEL SERVICE	8,257.0	+3	1,502.0	+133	0.57	1.32	+0.75
+300	1.50	1.71	+0.21	UNITEDHEALTH GROUP	6,682.0	+11	379.0	+53	1.15	1.20	+0.05
NM	0.28	-0.94	-1.22	WASHINGTON MUTUAL	NA	NA	969.0	+15	1.02	1.03	+0.01
+30	0.47	0.48	+0.01	WELLS FARGO	NA	NA	1,466.0	+24	0.86	0.86	—
+70	0.52	0.54	+0.02	TECHNOLOGY	70,998.1	+5	2,577.3	-24	0.17	0.07	-0.10
NM	0.80	-0.76	-1.56	ADVANCED MICRO DEVICES	686.4	-28	-854.7	NM	-0.50	-2.49	-1.99
+266	0.59	0.62	+0.03	AMGEN	1,766.1	+57	456.4	+180	0.34	0.34	—
-83	0.61	0.05	-0.56	APPLE COMPUTER †	1,472.0	+7	-6.0	NM	0.03	-0.02	-0.05
+2	0.82	0.83	+0.01	COMPUTER ASSOCIATES INTL. †††	778.0	+4	-44.0	NM	0.04	-0.08	-0.12
+40	0.47	0.43	-0.04	IBM	23,684.0	+7	1,911.0	-25	1.30	1.11	-0.19
+15	1.10	1.06	-0.04	INTEL	7,160.0	+3	1,049.0	+108	0.13	0.16	+0.03
+117	0.41	0.42	+0.01	LUCENT TECHNOLOGIES †	2,075.0	-42	-264.0	NM	-0.21	-0.11	+0.10
NM	0.34	-5.05	-5.39	MICROSOFT ††	8,541.0	+10	2,552.0	+12	0.46	0.47	+0.01
NM	0.45	0.79	+0.34	MOTOROLA	7,546.0	+3	174.0	NM	0.10	0.08	-0.02
+34	1.28	1.29	+0.01	ORACLE ††	2,309.0	-3	535.0	-3	0.08	0.10	+0.02
-32	0.32	0.32	—	SANMINA-SCI †	2,537.0	+124	-7.5	NM	0.01	-0.01	-0.02
NM	0.65	0.12	-0.53	SOLETRON †	3,136.6	0	-70.9	NM	-0.02	-0.09	-0.07
+54	1.05	1.06	+0.01	SUN MICROSYSTEMS ††	2,915.0	-6	-2,283.0	NM	-0.01	-0.72	-0.71
NM	0.19	-0.27	-0.46	TEXAS INSTRUMENTS	2,146.0	+20	-589.0	NM	0.02	-0.34	-0.36
NM	0.25	0.57	+0.32	XEROX	4,246.0	-3	19.0	NM	0.09	0.01	-0.08
+91	0.64	1.18	+0.54	UTILITIES & TELECOM	64,083.5	+3	4,334.2	NM	0.49	0.32	-0.17
+50	0.63	0.53	-0.10	AMERICAN ELECTRIC POWER	3,800.0	+31	-834.0	NM	0.57	-2.47	-3.04
+130	0.51	0.52	+0.01	AT&T	9,290.0	-9	-611.0	NM	0.20	-0.79	-0.99
NM	-3.77	-3.39	+0.38	AT&T WIRELESS SERVICES	4,047.0	+15	-131.0	NM	-0.02	-0.05	-0.03
+27	1.46	1.69	+0.23	BELLSOUTH	5,692.0	-8	597.0	-25	0.51	0.32	-0.19
+14	0.53	0.54	+0.01	CINERGY	3,417.5	+49	126.2	-1	0.64	0.73	+0.09
-32	0.76	0.47	-0.29	DOMINION RESOURCES	2,706.0	+8	339.0	NM	1.15	1.12	-0.03
NM	-2.44	-2.98	-0.54	DUKE ENERGY	4,000.0	+4	-52.0	NM	0.39	-0.06	-0.45
-53	0.17	0.18	+0.01	PUBLIC SERVICE ENT. GRP.	2,700.0	+55	255.0	+32	1.13	1.19	+0.06
0	0.78	0.81	+0.03	SBC COMMUNICATIONS	11,217.0	-6	2,355.0	+99	0.62	0.71	+0.09
NM	0.58	0.28	-0.30	VERIZON COMMUNICATIONS	17,214.0	+1	2,290.0	NM	0.79	0.83	+0.04
+2	1.05	0.98	-0.07								
NM	0.39	-0.20	-0.59								
+3	0.47	0.41	-0.06								

† First-quarter results †† Second-quarter results ††† Third-quarter results NM = not meaningful NA = not available *EPS adjusted for special items

Data: Standard & Poor's COMPUSTAT

Earnings Estimate Data Provided By Thomson Financial/First Call

POLITICS

A MAN, AN ECONOMIC PLAN—AND NOT MUCH BACKUP

Bush's pitchmen have been invisible. Can they play catch-up?

Three days after President George W. Bush unveiled his \$674 billion economic package on Jan. 7 amid catcalls from Democrats, The New York Times ran an opinion column that was a ringing defense of the plan. The author: Lawrence B. Lindsey, recently dumped as Bush's chief economic adviser, in a purge that also cost Treasury Secretary Paul H. O'Neill his job. It wasn't until two days later that Lindsey's replacement, former Wall Street exec Stephen Friedman, chimed in with his own op-ed piece backing the plan, this time in The Washington Post. Since then, Friedman has uttered nary a peep in public in defense of its plan. Not until Jan. 28, when the President plugged his package in the State of the Union address and Treasury Secretary-designate John W. Snow did the same in his Senate confirmation hearings, did the Administration rev up its pitch.

Does this strike anyone as odd? It should. Due in part to his decision to clean house in December, Bush, who has a well-earned reputation as a policy supersalesman, has had few high-ranking lieutenants to call on when the opposition flak intensified. And the preoccupation with crises in Iraq and Korea has distracted the Administration even

further. Says one insider: "It's hard to do several big things at once."

The result: For the first time in memory, Bush's political foes have gained the upper hand in the rhetorical battle over policy. Opponents have succeeded in branding the program as a deficit-buster skewed to the wealthy. A Jan. 16-20 ABC News/Washington Post poll found that 61% of Americans believe the President's approach tilts to the rich, while just 7% say the middle class is the major beneficiary.

The big problem is that the President's top two economic spokesmen have been largely on the sidelines. Snow remained silent until his Senate confirmation hearing. Friedman is being kept under deep cover by the White House after conservatives complained that his past opposition to big deficits would mute his support for hefty tax cuts. And Council of Economic Advisers Chairman R. Glenn Hubbard, the architect of Bush's dividend-exclusion idea, is preparing to leave the administration after failing to win the No. 2 Treasury post.

That means the White House faces an uphill struggle in turning things around. Bush briefly plugged his economic plan in his Jan. 28 State of the Union, arguing that his tax cut was "for

everyone who pays income taxes—it will help our economy immediately. But unlike the enthusiastic public response to Bush's tough words on Iraq, reaction to his economic message was mixed. According to a post-speech Gallup Poll, just 49% of viewers said Bush's plan would get the country out of its current economic problems.

It'll be up to Snow and Friedman to increase that support. Friedman has been huddling behind closed doors with financial execs and business reps. And at his Senate hearing, Snow lauded the plan as "an investment in the American people and their future." With his confirmation assured, he's likely soon to take the road to bolster support.

But the efforts of Friedman and Snow could be complicated by the long-standing fear of red ink. At his confirmation hearing, Snow was grilled on his rationale for supporting a tax cut that could help create the biggest deficit in U.S. history. A huge deficit would hurt the economy and financial markets, he acknowledged, but added, "We're a long way from there."

Facing a tough sales job on Capitol Hill, the White House is signaling that it is open to eventual horse-trading, particularly on the controversial cent piece of the package, the dividend tax cut. Bush "realizes he's not going to get some of his package," says American University professor of government James A. Thurber. "He's going to have to compromise."

That message is echoed by an influential bloc of Republicans on Capitol Hill. "We might have to look at alternatives," says House Ways & Means Committee Chairman William Thomas (R-Calif.). "It's not my job

BUSHWHACKED

The President's economic policies take a hit in the polls:

Do you approve or disapprove of the way President Bush is handling the economy?

	APPROVE	DISAPPROVE	NO OPINION
1/5/03	50%	43%	7%
1/20/03	43%	53%	4%

Do you think Bush's proposals on cutting taxes favor the rich, favor the middle class, favor the poor, or treat all people about equally?

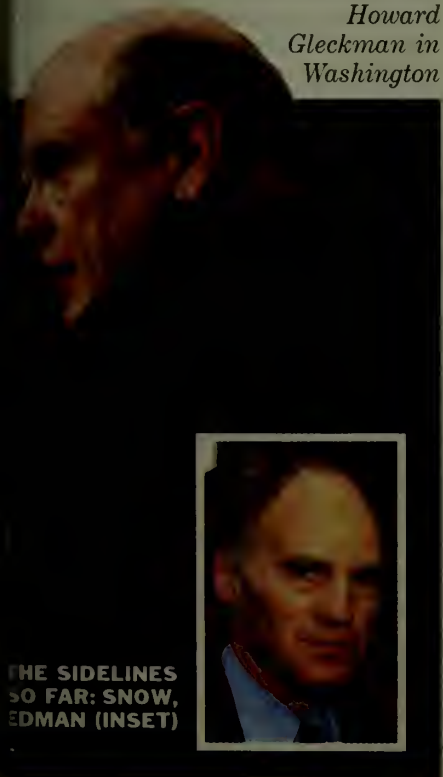
	RICH	MIDDLE	POOR	ALL EQUALLY	NO OPINION
1/20/03	61%	7%	2%	23%	7%

Data: ABC News/Washington Post poll conducted Jan. 16-20 among a random national sample of 1,133 adults. The results have a three-point margin of error.



'attaboy'; it's my job to pass legislation." And Senate Finance Committee member Charles E. Grassley (R-Iowa) privately doubts the proposal can win the Senate as proposed and is mulling to craft an alternative that will win a majority. Among the key players: a group of centrist GOP senators who believe Bush's plan does not provide enough immediate economic stimulus and costs too much over 10 years. Federal Reserve Chairman Alan Greenspan also did little to build support for the package when he met with Senate moderates on Jan. 23. While he tentatively supports ending double taxation of dividends as a way to improve long-term growth, Greenspan acknowledged that repeal would do little to stimulate the economy in the short run. White House advisers insist that it is too early to make concessions. Instead, they plan to signal their flexibility and keep busy trying to rally public support for the proposal—thereby strengthening their position at the bargaining table later in the process. But some supporters say the White House needs to hone its pitch. "Bush needs to do a better sales job, making the upside case that growth causes revenue expansion that can help finance the war and economic recovery," says Stephen Moore, president of the Club for Growth, a group advocating tax cuts. Of course, Bush has often rallied when faced with a seemingly intractable political problem. But now that he is in commander-in-Chief mode, Bush will have to leave most of the arm-twisting up to an economic team that's still learning the ropes in Washington.

By Richard S. Dunham,
Rich Miller, and
Howard
Gleckman in
Washington



THE SIDELINES
SO FAR: SNOW,
EDMAN (INSET)

COMMENTARY

By Peter Coy

WHY THE DIVIDEND TAX CUT ADDS CLUTTER TO THE TAX CODE

Rich or poor, Americans agree on one thing about the U.S. tax code: It's too complicated. Each April, the 1040 form and its slew of schedules reduce people to tears. Unfortunately, President George W. Bush's bid to eliminate double taxation of corporate profits would make matters worse. It would add paperwork and open new loopholes. "Simplification always gets put at the bottom of the heap," gripes Leslie B. Samuels, a tax attorney at Cleary, Gottlieb, Steen & Hamilton in New York City.

The complexity might be acceptable if the changes brought enormous benefits. But even the plan's main author—Columbia University economist R. Glenn Hubbard, the outgoing chairman of the President's Council of Economic Advisers—predicts that the overall Bush tax plan will boost growth by only 0.2% a year while swelling the budget deficit. The Administration might produce fewer tax headaches and still achieve its aim of a fairer tax system by, say, fixing the alternative minimum tax, which was intended to apply to the rich but is socking millions of middle-class families. Or, if its goal is to spur long-term growth, it could permanently accelerate depreciation of business investment.

The President's plan is clean enough in concept. It asserts that corporate profits should be taxed once and only once. So if a company pays \$35 in tax on \$100 of profit, shareholders should not have to pay tax on the remaining \$65 of profit, whether the money is distributed to them as a dividend or is retained by the company, which would help increase the stock price and add to shareholders' eventual capital gains.

But the idea leads to endless complications in the real world. Already, colorful phrases like "basis clawback" and "cumulative net basis bumps" are entering the tax lexicon. On Jan. 21, the Treasury Dept. had to issue a

12-page "technical explanation" with clarifications and adjustments. Now, airlines and other money-losers will benefit from a change that preserves some tax advantages for companies with net operating losses.

The heaviest paperwork will be keeping up with constant changes in the "basis" of a stock—the price



shareholders are presumed to have paid per share. "We're crying in our beer here," says Gayllis R. Ward, senior vice-president for investment tax services at Fiduciary Trust Co. International, a New York money manager. It's not conceptually difficult, but then again, neither was the hugely expensive fix for the Y2K glitch, says Stephen J. Tall, a Fiduciary senior vice-president. He estimates it could take 18 months to write and test software to handle the changes if the bill passes.

Others are more optimistic. Securities Industry Assn. Chief Economist Frank A. Fernandez says the new information can be conveyed fairly easily if the Treasury sets things up right. Some also argue that variations of the Bush plan work well in other countries. Actually, they don't. Germany, Britain, and Japan are moving toward the current U.S. approach, and Italy and France are considering doing so.

The likely macroeconomic impact of the Bush tax plan may be up for debate, but there's little question about its impact on the complexity of the Internal Revenue Code: negative.

Coy is Economics Editor.



IT'S NOT 'ALL ABOUT OIL,' BUT ...

Victory in Iraq would reshuffle the global players with big stakes in the country's oil fields

When tens of thousands of protesters opposed to a U.S. war in Iraq descended on Washington on Jan. 18, you could see the placards everywhere: "No U.S. Blood for Oil." Convinced that a war would be nothing more than a thinly veiled resource grab instigated by Big Oil, activists vow to follow up on Feb. 4 by staging protests at gas stations across the country.

Fringe thinking? Hardly. The suspicion that George W. Bush's showdown with Saddam Hussein is "all about oil" isn't just a fixation of the American Left. It's gaining adherents among the European intelligentsia and in the Arab world. "Washington says it wants to eliminate any threat of interruption of the flow of oil, to ensure that it will be accessible to U.S. oil companies," said British Labor Party politician Alice Mahon on Jan. 22. "A different and more compliant government in Iraq would make that possible."

Naturally, the Bush Administration and U.S. oil companies bristle at that charge. In his Jan. 28 State of the Union address, the President called Saddam "a brutal dictator" and insisted that the Iraqi leader and his weapons of mass destruction "will not be permitted to dominate a vital region and threaten the U.S." Adds an American oil industry source: "I would be shocked if any in-

dustrial executive is wringing his hands in glee" over the impending conflict. In the short term, many oil companies and producers could in fact be hurt by a U.S. victory. If the U.S. gets more oil from Iraq, that would drive the price down, says the industry exec.

Still, when Bush says "vital region," he's alluding to the obvious: While the war with Saddam is not driven by a U.S. lust for Iraq's oil fields—second only to Saudi Arabia's in terms of proven reserves—he is not about to let a vicious strongman with ambitions to be another Nasser-style, pan-Arab nationalist control the crucial area either.

What's more, when U.S. oil execs profess dismay over the drop in world crude-oil prices that could follow American seizure of Iraqi fields, they're only telling part of the story. In the long term, assuring a larger and more stable supply outside of Saudi Arabian domination could benefit both the U.S. and world economy. And modernizing the decrepit Iraqi oil industry will be a huge opportunity. Just making Iraqi facilities capable of pumping oil at 1990 levels could cost \$5 billion, says a study by the Council on Foreign Relations and James A. Baker III Institute for Public Policy. Doubling capacity from the current 2.8 million barrels a day might cost \$40 billion.

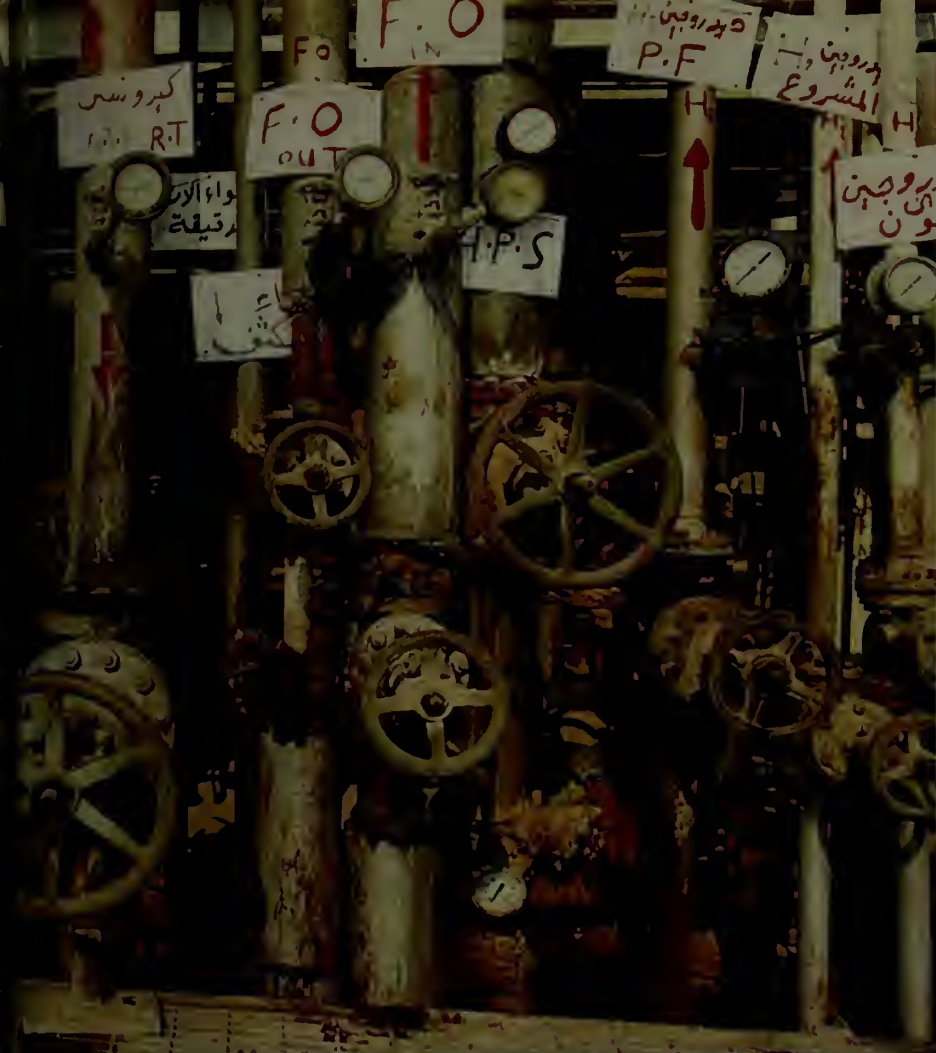
HOW THE WAR MIGHT PLAY OUT: TWO SCENARIOS FOR OIL

Data Center for Strategic & International Studies, BW

A QUICK, CLEAR VICTORY

- ▶ The U.S. invasion meets little resistance and is over in a few weeks
- ▶ Iraq's oil fields remain intact
- ▶ Iraqi production stops for three months and resumes slowly after fighting ceases
- ▶ Total cost of modernizing Iraq's oil structure amounts to about \$5 billion over two years
- ▶ Oil prices spike to \$36 a barrel, then decline to \$20 in the third quarter of 2003





The giant TotalFinaElf now has development rights to roughly 25% of total Iraqi reserves. In theory, France's long relationship with Iraq's nationalistic oil technocrats could put French outfits in good shape for more deals after any war. But at the moment, many French industry officials remain convinced that the Americans will exact revenge if France fails to fully support the war effort. While Russian contracts may be honored, "ours won't be," predicts a top executive of TotalFinaElf. That's why some French observers insist that when push comes to shove in the U.N., France will march in step—mainly to protect its oil stakes.

Russia is in a more delicate position. Iraq owes Moscow \$8 billion in Soviet-era debt. In 1997, Lukoil signed a \$3.5 billion, 23-year deal to revive Iraq's al-Qurnah field, which has 7.8 billion barrels of proven reserves. But the accord was put on ice after President Vladimir V.

**REBUILDING
IRAQ'S
DECREPIT
OIL INFRA-
STRUCTURE
COULD
COST
\$5 BILLION**

Putin's support for the U.S.-led sanctions drive. Now Lukoil is sending a high-level delegation in February to heal the breach—the second such

diplomatic overture in recent weeks.

Lukoil President Vagit Alekperov claims to have Kremlin assurances that his interests will be protected in a post-Saddam regime. That has many industry observers convinced that an informal accord with Washington is in place, one that would restore Lukoil's stake in Iraq.

For American energy companies, smarting from the charge that former oil execs George W. Bush and Vice-President Dick Cheney are spearheading their interests, the subject of economic gain from an Iraqi intervention is extremely sensitive. U.S. oil executives queried by *BusinessWeek* would not speak on the record. Privately, industry sources familiar with discussions with the Administration say the talks focused on nitty-gritty issues such as snuffing out oil fires Saddam's forces may set. And the industry remains torn on what impact war in Iraq will have on its fortunes. In the short term, Iraqi infrastructure rebuilding projects might be sweet deals. Yet over the long haul, a flood of Iraqi oil could depress world prices. Bottom line in the Oil Patch: Keep your lip zipped, hope George W. is right, and go along for the ride.

By Stan Crock, John Carey, and Laura Cohn in Washington, Paul Starobin in Moscow, Wendy Zellner in Dallas, and bureau reports

e of the action. They, too, are worried about anything that causes crude-oil prices to fall. The war "is totally about oil," says a top executive at France's TotalFinaElf. Adds Simon G. Kukes, a top executive of Russia's Tyumen Oil Company, "I don't see much room for Russian companies" in postwar Iraq.

The anxiety is high because Iraq's oil infrastructure is vast. Only 15 of its 74 discovered oil fields have been developed, and just 125 of the 526 known oil deposits have been drilled, according to Baker. Currently, Iraq is only bringing in \$16 billion annually from oil exports—paltry by OPEC standards. And deteriorating infrastructure means oil output is dropping by about 100,000 barrels over each successive year.

AWN-OUT, MESSY OUTCOME

Resistance is heavy; Israel is drawn into arming war

in Hussein sabotages Iraqi oil production

Cost of rebuilding Iraq's oil infrastructure: \$20 billion over several years

U.S. taps strategic reserves, rationing gasoline

Oil prices soar to \$80 a barrel initially, then drop to \$40 in 2004

But that picture could change dramatically if the U.S. military staves off Iraqi sabotage and puts in place a new regime committed to hurry-up modernization. If Iraq opens its oil taps, that would be a powerful psychological force for lower oil prices worldwide. "The whole market will flip from bullish to bearish," says Fareed Mohamedi, chief economist at PFC Energy in Washington.

What about tapping some of that oil to pay for the war? According to Secretary of State Colin L. Powell, the U.S. won't fund its military campaign from Iraqi oil revenues, but reserves the right to use some of Iraq's black gold for reconstruction. "The oil of Iraq belongs to the Iraqi people," Powell said on Jan. 21. "It will not be exploited."

So who will reap the big bucks from getting Saddam's oil fields back on track? At this point, Iraq is believed to have contracts worth about \$38 billion pending with such companies as Italy's ENI, Royal Dutch/Shell, Australia's BHP, TotalFinaElf, and Russian giant Lukoil. Sanctions have precluded American companies from doing business in Iraq, and foreign concerns are likely to continue to exploit their long-standing links. Yet the sanctions have also stalled efforts by non-U.S. companies to complete their deals and start development.

France is by far the biggest player.

THE INTERNET

MUSIC MERCHANTS RUSH IN WHERE LABELS HAVE FAILED

Can they do better at getting the public to pay for downloads?

Over the past three years, the recording industry has tried—and failed—to persuade music lovers to pay for online tunes rather than download them for free. Now, it seems, it's the retailers' turn to try. In late January, Anderson Merchandisers, which distributes music to Wal-Mart Stores Inc., announced plans to get into the online music business with its purchase of the flailing Web service Liquid Audio. A few days later, a consortium of six retailers, including Best Buy Co. and Tower Records, announced it was investing in online service Echo Networks Inc. Meanwhile, Web leviathan Amazon.com Inc. is ginning up its own downloadable music offering.

It's easy to see why the merchants feel they need to jump in. CD sales fell 9% last year, largely because of all the free downloading. At the same time, retailers see the record labels' music subscription services, pressplay and MusicNet, as a competitive threat. But the music sellers also believe their marketing experience will allow them to do a better job selling digital tunes. "We felt the [labels'] solutions weren't focusing on the consumer," says Scott Young, vice-president for digital entertainment at Best Buy.

How would the music merchants prevail where the labels have failed? The key, say analysts, will be providing more choice and flexibility. Right now, pressplay, for example, allows its subscribers to download songs to their PCs temporarily. But unless they pay 99¢ per song, they can't move them to other devices or make permanent copies. And once someone quits the service, the temporary downloads disappear. The retailers figure they can use their collective clout to get the labels to ease up on these restrictions—to lower prices on new songs, deeply discount older tracks, and give consumers more

freedom to copy and download music.

But the labels may not be swayed. After all, note analysts, if they were willing to cut prices and make more songs available for copying—and able to make money at the same time—they would have done so. "It takes a lot of energy to make this work," says John Rose, executive vice-president at EMI Group. "Yes, it's about price, but it's about other things, too. You have to have hooks into consumers in other ways."

To go along, the labels are likely to demand that retailers provide plenty of extra marketing bang. That might include throwing in such content as liner notes, artist interviews, and concert tie-ins. The idea would be to lure enough buyers to offset lower prices.

Then there is the vexing question of providing copyright protection. The retailers will have to find a way to install digital armor strong

enough to prevent piracy but not turn off consumers. One proposal: making it impossible for people to upload the music to such free file-sharing sites as Kazaa, but allowing them to copy tunes to a computer or MP3 player.

Can the music merchants make this work? Much will depend on their ability to win concessions from the labels. The retailers do have one advantage there. Unlike Liquid Audio and Echo, the merchants are market insiders who have long worked with the labels. "They aren't strangers," says Jim Urie, president of Universal Music & Video Distribution. "They honor and value our content." Whether they can do that while finding the right combination of pricing and extras to compete profitably with free music, though, remains to be seen.

By Heather Green in New York, with Ronald Grover in Los Angeles and Robert D. Hof in San Mateo



CEO CHAMBERS: Slow to litigate

HIGH TECH

CISCO: MAKING A FEDERAL CASE OUT OF IT

It's suing a rising Chinese rival, alleging "brazen" piracy



For months, Silicon Valley cognoscenti have been wondering when Cisco Systems Inc. would crack down on Huawei Technologies Co.

The most famous network equipment company in China has long been racking up sales of switches and routers, some of which perform exactly like Cisco products and sell for a fraction of the price. Analysts and dealers who handle Huawei gear have marveled at the similarities, which extend right down to the user manuals and keyboard programming commands.

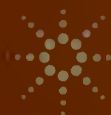
The speculation ended on Jan. 24. Despite CEO John Chambers' well-known aversion to litigation, Cisco announced that it was suing its Chinese rival in U.S. district court in Texas, where Huawei subsidiary is headquartered. "The issue is brazen and blatant copying of our intellectual property. It simply needs to stop," says Mark Chandler, Cisco's chief counsel.

While the lawsuit is a first for Cisco, such complaints about Chinese companies are nothing new. In 2001, U.S. losses to piracy in China exceeded \$1.9 billion, up from \$1.08 billion the previous year, estimates the International Trade



More students dream
staying after school

Because those students are part of Agilent After School, a global program where real Agilent scientists and engineers volunteer their time to demonstrate how much fun science really can be. It's a balloon-powered car. An actual operating periscope you can build at home. It's how a light bulb turns on. It's igniting a spark in tomorrow's scientists and engineers. And it's just a small part of Agilent's ongoing efforts to enrich communities the world over.



Agilent Technologies

dreams made real

lectual Property Alliance in Washington, D.C. But this case is different: Huawei's products—knockoffs or not—are far more sophisticated than the low-price consumer goods for which China is famous. Huawei's successful entry into this market augurs increased competition in the highest circles of information technology. "In the future, we will see a lot of these suits," says Byron Wu, a China analyst for iSuppli Corp.

Huawei declined to speak with *BusinessWeek*. In a press statement, it denied the charges, saying that the company and its subsidiaries "have always respected intellectual property rights." And whatever happens in Texas, Huawei invests heavily in its own technology. Founded in Shenzhen in 1988 by a former People's Liberation Army officer, the \$2.7 billion company enjoyed 68% growth in its international sales last year, to \$552 million. In a few years, overseas sales could account for one-third of the total.

Cisco is plainly spooked by the competitive threat as well as piracy. "Huawei is coming along and beginning the process of commoditization," says Andrew Chetham, an analyst with Gartner Inc. in Hong Kong. "There is a clear industry rationale, as well as an intellectual property rationale, for what Cisco is doing."

What's less obvious is the likely outcome. If Cisco wins an injunction against Huawei in Texas, the Chinese company will be unable to sell or distribute the related products in the U.S. That judgment would be enforceable in many other countries, creating a major obstacle to Huawei's expansion.

As for Huawei's domestic business, Cisco is counting on support at the highest levels. "The Chinese government recognizes that appropriate enforcement of intellectual property rights is going to be important to Chinese economic development," says Chandler. Indeed, having joined the World Trade Organization in 2001, Beijing is toughening its legal infrastructure to better protect copyrights and patents, says Jeffrey J. Hardee, vice-president and regional director for the Business Software Alliance in Singapore. The change can't come fast enough to suit Cisco.

By Bruce Einhorn in Hong Kong, with Peter Burrows in San Mateo, Calif., and Paul Magnusson in Washington



GAINING IN THE MARKET: A Huawei assembly line

COMMENTARY

By John A. Byrne

GOODBYE TO AN ETHICIST

There is a telling story about Marvin Bower, the legendary leader of McKinsey & Co. who died on Jan. 22 at age 99. It says much about the bedrock values of this unassuming man, who was known as the father of management consulting.

In the 1950s, Bower was summoned to Los Angeles by billionaire Howard Hughes, who



wanted him to study Paramount Pictures. During the visit, Hughes was in a magnanimous mood and drove the fledgling consultant around in his ancient Chevy, even giving him a late-night tour of the Spruce Goose, the massive wooden plane Hughes developed during the war.

But Bower sensed that nothing good could come of working for Hughes. He found the entrepreneur's approach to business "so unorthodox and so unusual" that he felt he would never be able to help Paramount. Instead of taking the assignment and reaping a big fee, he walked away.

The move was classic Bower. He built McKinsey into a global consulting powerhouse by insisting that values mattered more than money. He preached the notion that consulting was not a business but a profession, arguing that, like the best doctors and lawyers, consultants should put the interests of their clients first, conduct themselves ethically, and insist on telling clients the truth, not what they wanted to hear.

That was as unusual then as it is

today. But so was Bower, a towering figure at McKinsey and in the large world of consulting. At McKinsey, Bower helped to move consulting from shop-floor efficiency studies to major strategy reviews for top-tier corporations. He created one of the world's most productive leadership factories, producing hundreds of corporate CEOs and presidents. In the mid-1950s, he was the first to systematically recruit raw talent off B-school campuses, helping to give the MBA degree new cachet.

He was, after all, a Harvard lawyer and MBA himself, who joined the New York office of Chicago-based James O.

McKinsey & Co. in 1933, when it had only 18 professionals in two locations.

After McKinsey's death in 1937, Bower reestablished

the firm in New York and served as its managing director from 1950 to 1967. His vision for McKinsey came straight from his experiences at Jones Day, where

he had worked as a lawyer. He wanted to bring the professional standards of a top law firm to what was then called management engineering.

Bower also insisted that the success of his firm brought personal obligations. Louis V. Gerstner Jr., the former IBM chairman who had spent 11 years at McKinsey, remembers Bower marching into his office one day 35 years ago. "What are you going to do to give something back?" Bower asked. "Come with me." Recalls Gerstner: "We went together to a meeting on public-school reform, something I'm still involved in."

In a Jan. 23 e-mail to McKinsey employees, current Managing Director Rajat K. Gupta wrote: "Many of us will continue to make choices for the rest of our professional careers based in large part on the question we often ask ourselves: 'What would Marvin have done?'" It's a good question—one any manager in the world might ask.

Senior Writer Byrne covers management

Ranked #1 by *SmartMoney Magazine* for the Do-It-Yourself Investor*



"You can't plan for tomorrow if you don't know where your money is today."

25 Free Trades

Open an account online at
tdwaterhouse.com/25free
and enter offer code: **MPFBWW**
to get your 25 free trades.

CONTACT US AT:

1.800.tdwaterhouse
tdwaterhouse.com
or stop by one of our
150 branch locations

Online trades as low as

\$9.95

TD Waterhouse customers stay close to their money because they do their own homework and check out all the research themselves. So they always know where their investments are and how they're doing. Which makes it a lot easier for them to plan for the future. No wonder TD Waterhouse has been ranked #1 for Do-It-Yourself Investors by *SmartMoney Magazine*.*

TD Waterhouse has everything you need to stay in control of your money, all in one place. With free online tools like the Retirement Planner to help you set and meet your financial goals. Streaming real-time quotes.[†] News and independent research from respected names like Standard & Poor's, CBS MarketWatch, Argus, Vickers, Reuters

and First Call. Which explains why TD Waterhouse has earned Kiplinger's** highest, 5-star rating for the amount and quality of their online research.

Once you open an investment account, you'll get service you can depend on. And you can always get answers online or by phone. You can even stop in and talk to an Investment Consultant at any of our more than 150 branch locations across the country.

So why not get a little closer to your money today? Open a TD Waterhouse account and take control of your money — and your future.



Waterhouse

You're in Control.

©2003 TD Waterhouse Investor Services, Inc. Member NYSE/SIPC. Access to services and your account may be affected by market conditions, system performance or for other reasons. Online market orders are \$9.95-\$17.95 depending on trading activity. Limit orders just \$3 more. Trades over 2,500 shares incur a 1 cent per share charge for the entire order. Call or see tdwaterhouse.com for complete commission fee schedule. Offer valid for new customers who open individual, joint, retirement accounts with a \$1,000 minimum; custodial, partnership and corporate accounts are not eligible. Funds transferred from existing TD Waterhouse accounts are not eligible. One offer per person; U.S. residents only; void where prohibited; free trades are valid for 30 days from account opening; standard terms and conditions apply; offer subject to change at any time without notice. Third party research obtained from sources deemed reliable; however, TD Waterhouse does not guarantee its accuracy or completeness and makes no warranties with respect to results to be obtained from its use. [†] Streaming real-time quotes available depending on trading activity. **SmartMoney Magazine*, August 2002. Four out of the last six years. SmartMoney is a registered trademark. SmartMoney is a joint publishing venture of Dow Jones & Co., Inc. and Hearst Communications Inc. ** Source: Kiplinger's Stocks 2003, Winter 2002.

CODE: MPFBWW

TDW3247

EDITED BY CHRISTINE TIERNEY

KPMG: BITTEN BY THE WATCHDOG

CHARGING THAT AUDITORS were "toothless" in the face of widespread fraud at Xerox, the Securities & Exchange Commission on Jan. 29 sued accountants KPMG and four partners. In a rare case of civil charges against a Big Four firm, the SEC alleges that KPMG ignored repeated warnings that Xerox was padding revenues by \$3 billion between 1997 and 2000. The SEC says KPMG caved in to the client's demands, replacing lead auditors who questioned creative revenue schemes. Xerox has already paid a \$10 million fine for accounting fraud, and its shareholders shrugged off the SEC suit. But KPMG and its auditors vow to fight, arguing that they caught the bad accounting and forced an outside investigation. For penalties, the SEC wants KPMG to cough up all its fees from Xerox—\$26 million from audit-

ing and \$56 million for other consulting.

TREADING WATER AT NEXTWAVE

A LONG-RUNNING LEGAL SAGA in the wireless industry concluded when the U.S. Supreme Court ruled on Jan. 27 that bankrupt wireless startup NextWave Telecom can keep licenses for its spectrum. NextWave filed for bankruptcy after bidding for the airwaves at a Federal Communications Commission auction in 1996. The FCC reaucted the licenses in 2001. Now, the court has decided that bankruptcy protects NextWave from the FCC's move. The feds will have to reimburse the \$16 billion they got from the winners of its re-auction.

WILL PAUL ALLEN CHOP UP CHARTER?

PAUL ALLEN MAY UNPLUG from his "wired world." The Microsoft co-founder is looking to restructure his majority-owned Charter Communications, say investment bankers. Allen could restructure Charter, which is struggling under \$20 billion in debt, in a prepackaged bankruptcy, they say, although creditors might battle him for control. Allen may put more money into the company, but he has also talked to private equity firms such as Carlyle Group and Thomas H. Lee Partners about selling all or part of the company, according to sources. An Allen spokesman says he "remains committed" to Charter and his wired-world vision. Charter declined comment.

STORAGE WARS, ROUND 2

EMC IS ABOUT TO COUNTER-attack competitors who have been grabbing share in the

HEADLINER: MICKEY DREXLER

J. CREW'S REDRESSER?

Former Gap CEO Millard "Mickey" Drexler has taken on a new challenge: fixing J. Crew Group, the foundering retailer. As Crew's new chairman and CEO, Drexler, whose once unerring fashion instincts propelled Gap to iconic status as an American brand, will manage just 195 stores, counting factory outlets. That's a far cry from Gap's 4,100 shops.

Although Drexler, 58, will be the fourth CEO at J. Crew in five years, he's acting like someone who's in it for the long haul. He has invested \$10 million in the company, which is 60%-

controlled by Texas Pacific Group, and brought in as president a former Gap colleague, Jeffrey Pfeifle.

Ken Pilot has resigned as J. Crew's CEO, and Emily Woods, the daughter of the company's founder, has stepped down as chairman but retains her board seat.

Like Gap, J. Crew suffered a sales skid when it aimed too young in its fashion mix. In a hopeful sign for J. Crew, though, Gap's sales have grown for three months now, thanks in part to Drexler's last merchandising revamp before he departed.

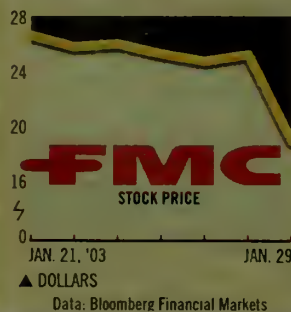
Gerry Khermouch



CLOSING BELL

HARSH REACTION

FMC Corp. investors took a shellacking on Jan. 29, one day after the company put out disappointing earnings guidance for 2003. The main problem: FMC's chemicals business faces tough pricing. The company said it should earn only \$1.75 to \$2.00 per share in '03, about 30% below expectations. FMC shares slumped 24% to close at \$19.



data-storage market. On Feb. 3, the company will launch a new line of high-end products that it says will outperform boxes from Hitachi Data Systems and IBM but cost less. The move is likely to set off another round of price wars in the battered storage sector. EMC's least expensive model—starting at \$400,000—could draw new customers from the fast-growing middle-tier storage market. But it could cannibalize higher-priced boxes that historically have made up the bulk of EMC's revenue.

DELTA SINGS A CHEAPER SONG

CAN DELTA AIR LINES BEAT discount carriers like JetBlue Airways at their own game? The Atlanta-based carrier announced on Jan. 28 that it will launch a low-cost airline called Song. Charging fares

from \$79 to \$299, the new carrier will compete with discounters that have eroded Delta's share of traffic to the lucrative Florida market. Delta doesn't exactly have a choice: 30% of its domestic revenues come from markets that are under assault from lower-cost competitors. Song will begin service on Apr. 15 with initial flights between John F. Kennedy International Airport and West Palm Beach, Fla. On this route—and others—it will compete with JetBlue, one of the most successful low-cost airlines.

ET CETERA...

- Ted Turner said he will step down as AOL Time Warner vice-chairman.
- Boeing unveiled a new line of jetcraft, the 7E7.
- Sprint shares plunged on news that CEO William Esrey will leave the company.



Get 1,000 HHonors bonus points
for booking online from the
comfort of your home.

(No matter what your definition of comfort is.)

Book online and stay by February 28, 2003, to earn 1,000 Hilton HHonors® bonus points.

Just cozy up to hiltonhhonors.com to make your next reservation using your

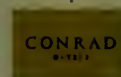
Hilton HHonors account number. Book online and stay between January 1 and

February 28, 2003, and you'll earn an extra 1,000 HHonors bonus points. It's yet

another simple, convenient and comfortable way to get even more with Hilton HHonors.

hiltonhhonors.com


Hilton HHonors®
Points & Miles®




The Hilton Family™

You must be a member of Hilton HHonors to earn HHonors points. Please allow three weeks after you complete your stay for the online reservation bonus to appear in your Hilton HHonors® account. This offer applies to reservations made on the Hilton®, Conrad®, Doubletree®, Embassy Suites Hotels®, Hampton Inn®, Hampton Inn & Suites®, Hilton Garden Inn® and Homewood Suites® by Hilton Web sites. The 1,000 HHonors bonus points cannot be earned in addition to any other HHonors points or airline miles online reservations bonus. Hilton HHonors membership, earning of Points & Miles®, and redemption of points are subject to HHonors Terms and Conditions. ©2003 Hilton HHonors Worldwide

BMW
Certified
Pre-Owned

bmwusa.com
1-800-334-4BMW



The Ultimate
Driving Machine

Certified grip

Certified growl

Certified handling

Certified greatness

Certified oh yeah

Certified Pre-Owned BMW



Certified only at an authorized BMW center.

Get warranty protection* up to 6 years or 100,000 miles. Get flexible leasing and financing options. Get pure BMW

Certified Pre-Owned
by BMW

EDITED BY RICHARD S. DUNHAM

ENOUGH WITH THE RHETORIC, THE RIGHT WANTS RESULTS

While President George W. Bush used his Jan. 28 State of the Union address to make the case for war, he also found ways to hone his compassionate conservative credentials. Some of the initiatives he announced—new funding to combat AIDS and addiction—underscoring his promise to be a “different kind” of Republican. But Bush also tended to his party’s social conservative flock by promoting items on the Christian Right’s wish list, from curbing abortions to funding faith-based organizations.

The President’s attempt to balance the priorities of both social moderates and conservatives is a preview of the political tightrope he must walk as he approaches a 2004 reelection bid. Christian conservatives are a vital GOP constituency, and ensuring they turn out in full force could make the difference in swing states such as Pennsylvania, Missouri, and Michigan. But as Bush tries to stay in their good graces, he can’t afford to alienate moderate suburbanites who backed him in 2000 but are deeply suspicious of any hard-Right social agenda. “[That] could put [him] on a collision course,” says Rutgers University political scientist Ross K. Baker.

The Right isn’t making it any easier for the President. Christian conservatives turned out in droves in the midterm elections and delivered the Senate to the GOP by tipping races in Colorado, Missouri, and Minnesota. With 2004 in mind, they are threatening to withhold enthusiastic support if Bush and the Republican Congress don’t deliver a suitable Supreme Court justice and new restrictions on abortion—and that’s just for starters. “We are a vital part of their coalition, and if they don’t act, they will suffer for it,” says Paul M. Weyrich, president of the Free Congress Foundation.

How will Bush repay the Religious Right without alienating the suburban center? The Administration’s strategy is to

champion a few “85% issues”—conservative priorities that have overwhelming public support, such as bans on human cloning and late-term abortion. The goal, according to White House political guru Karl Rove, is to attain “the practical and the possible” while avoiding more divisive issues.

Bush will also push Religious Right priorities that fit under his compassionate conservative umbrella. Case in point: Programs for the poor have been molded to appeal to Christian activists. For example, while Bush called for legislation that will allow faith-based organizations to compete for federal social services contracts, he has already implemented broad

swaths of that policy through executive orders. And welfare reauthorization, scheduled for 2003, gives him another opportunity to appease the Right by earmarking \$300 million for marriage promotion among the poor.

While such initiatives certainly help the President’s standing with religious groups, the big enchilada of the conservative agenda is the Supreme Court. And the Right is demanding that Bush pick an unambiguous abortion opponent when the first vacancy occurs. “That would overshadow everything else,” says

Gary L. Bauer, president of the Campaign for Working Families. Bauer and other right-wing activists are cautioning that one potential appointee, White House counsel Alberto R. Gonzales, would not pass muster. Their beef: As a Texas Supreme Court justice, he supported a decision in an abortion case that weakened parental notification rules.

As his State of the Union demonstrated, Bush understands that he needs to hang on to moderate support while keeping social conservatives happy. But the Right rhetoric and good intentions will no longer suffice, and the President’s high-wire act just got a whole lot riskier.

By Alexandra Starr



PROLIFE: Abortion foes protest in Washington

CAPITAL WRAPUP

HELD ACCOUNTABLE

► Already battered in Washington, big accounting firms now face new legal risks at home. On Jan. 21, a New York State appellate court lowered the bar that has kept outsiders from suing auditors for signing off on false financial statements. The decision allows New York perfume maker Houbigant Inc. to pursue fraud charges against Deloitte & Touche. From 1994 to 1998, Houbigant licensed its fragrances to Renaissance

Cosmetics (RCI), relying on financials audited by Deloitte for proof that RCI was solvent. RCI went bankrupt in 1998. A lower court threw out Houbigant’s suit, citing rules that require strong evidence of fraud before trial. But preliminary evidence isn’t needed, the appellate court ruled, because Deloitte might be liable for fraud if it merely failed to investigate whether RCI’s documents were accurate. Deloitte says its audit was sound. Legal experts say the opinion is a big boost for shareholders pursu-

ing damages in big corporate collapses.

SOCIAL SECURITY PLUS

► The Administration will propose a broad expansion of Roth IRAs in its Feb. 3 budget, making them available to more upper-income families and lifting the annual contribution limits to as much as \$7,500 from \$3,000. Encouraging investments in Roth IRAs, where tax is paid on contributions but not on earnings, would be another significant step toward tax reform.

DEATH OF A DREAM

Tiny Sendo linked up with Microsoft to build a smart phone. But then...

Back in 1999, Hugh Brogan had a dream. The CEO and co-founder of Britain's only mobile-phone maker foresaw a day when wireless handsets would be as powerful as portable computers. And just as Dell Computer Corp. churns out built-to-order PCs from standard parts, Brogan figured he could manufacture cookie-cutter Web-enabled "smart phones" that would be customized at the last possible minute to fit the whims of mobile carriers. Heck, they might even run Windows. With such a standardized protocol, the whole wireless business could inherit the efficiency of the PC industry. Brogan was sure he had the formula. And in a great stroke of luck, he found a backer in Microsoft Corp.

Now, Brogan's dream lies shattered. On Nov. 7, 2002, the 38-year-old entrepreneur called the staff of his young startup, Sendo Holdings PLC, to a 9:30 a.m. "town meeting" at the new company headquarters on the outskirts of Birmingham. Most employees figured he was planning a speech on Sendo's next moves. After all, the 325-person company, which makes a broad line of

mobile handsets, finally was ready to ship its highly anticipated Z100 Smart-phone—with built-in Microsoft software—after two years of hard slogging.

Instead, Brogan dropped a bomb. He and the board had decided to end Sendo's relationship with Microsoft. The Z100—the result of hundreds of man-years of effort—was canceled, costing Sendo as much as \$300 million in lost revenue. The company would develop a new smart phone using rival software from mobile colossus Nokia Corp. and Britain's Symbian Ltd. "We have to do this to save the company," he told employees. Brogan's explanation: Microsoft had double-crossed Sendo.

Six weeks later, on Dec. 20, Sendo filed a lawsuit against Microsoft in U.S. Federal District Court in Texarkana, Tex., near Sendo's U.S. office. The suit charges the software maker with fraud, theft of intellectual property, and conspiracy to destroy the startup. Privately held Sendo is seeking unspecified monetary damages. Microsoft is scheduled to file its answer to Sendo's complaint on Feb. 3.

It seems incredible: Why would Microsoft stoop to something so callous and risky? Brogan's answer: Under the terms of their contract, the software giant stood to obtain royalty-free access to Sendo's technology in the event the startup went bust. Such clauses aren't uncommon. But Sendo's suit alleges Microsoft had a "plan" to gain its trust, "plunder" Sendo's technology, and drive the company "to the brink of bankrupt-

cy." Microsoft's curt reply: It respects intellectual property of both partners and rivals and "looks forward to refuting Sendo's baseless claims."

It's up to the court to decide whether Sendo's case has merit. Microsoft has plenty of critics who say the giant plays rough. But the real story of Sendo's fall could just as easily be a tale of inexperienced entrepreneurs who ran out of money before they worked the kinks out of their technology—and are now turning on a rich patron to salvage what they can. Microsoft is expected to counter that Sendo brought on its troubles through incompetence and financial mismanagement. In November,

THE Z100: SENDO GAVE UP

FROM BLISS TO DIVORCE IN 24 MONTHS

OCTOBER, 2000

Sendo and Microsoft sign deal to develop Z100 Smartphone using slimmed-down Windows **CODE-NAMED STINGER**.

FEBRUARY, 2001

First **PROTOTYPE** Z100 shown at annual Cannes wireless show. Shipment promised for August.

AUGUST, 2001

With Stinger software still not ready, **PHONE WAS POSTPONED** until December. More delays follow.





CAN BROGAN PROVE HIS CHARGE THAT MICROSOFT PLANNED TO "PLUNDER"?

Before Sendo filed its suit, Microsoft's vice-president for mobile devices, Juha Haataja, told *BusinessWeek*: "The loser you get to the truth, the better the story looks for us."

Whatever the outcome, the falling out is a sign of the enormous challenges that companies encounter developing wireless Web phones. Squeezing radios, microprocessors, and software into lightweight handsets and then getting the phones approved by picky operators has proved daunting: "Everybody has found it difficult to do," says Ben Wood, senior analyst for researcher Gartner Inc. in London. The squabble with Sendo is also another setback in Microsoft's quest to break into mobile. "This is a bloody nose," says telecom analyst John Jackson of Yankee Group in Boston.

How did Sendo go from Microsoft flag-bearer to bitter enemy? Microsoft won't discuss details, but Sendo's court filing and conversations with company insiders paint a picture of growing mistrust, technical travails, and financial crisis. After a year of courtship, Sendo and Microsoft in the fall of 2000 contracted to collaborate on a phone due out in August, 2001—one that would be the first to use the mobile version of Windows, then known by the code name Stinger. Microsoft invested \$12 million in Sendo for a 5% stake and a board seat. Microsoft was attracted by Sendo's technical acumen and experience. The software maker also was thrilled to land a partner after the rest of the mobile Establishment turned its back on what it perceived as a PC-industry interloper.

And Sendo produced a dazzling prototype that won rave reviews at the mobile industry's annual shindig in Cannes.

Behind the scenes, though, things were rocky. In its suit, Sendo says Microsoft repeatedly said Stinger was nearly ready. But, says Sendo, Microsoft could never manage to deliver working code to its partner. As the Z100's commercial launch date kept slipping, Sendo's cash position got desperate. Eventually, Microsoft offered Sendo a \$14 million loan. Facing bankruptcy, Brogan accepted the loan, even though it had a provision allowing Microsoft to demand immediate repayment if Sendo failed to ship phones by April, 2002.

Yet Sendo missed the April deadline—again, it says, because Microsoft hadn't finished the software, by then known as Smartphone 2002. Microsoft agreed not to call the loan, but in May demanded a four-day technical audit of Sendo's progress. Sendo finally got working code from Microsoft on Sept. 27, and the Z100's launch was set for early November.

Brogan had always known that Sendo's relationship wasn't exclusive. But on Oct. 22—two weeks before the Z100's scheduled release—Europe's second-largest mobile carrier, France Télécom-owned Orange, unveiled a private-label Microsoft Smartphone, called the SPV, built by High Tech Computer Corp. of Taiwan. Analysts were amazed that this mobile-phone neophyte delivered a Smartphone before Sendo. Now Sendo's suit says Microsoft provided HTC with test versions of the Z100 to aid in the development of HTC's phone. A damning charge—but legal experts say that Sendo must provide strong proof that Microsoft or HTC didn't invent their own solutions. HTC and Orange declined to comment.

Brogan still faces an uphill battle to beat Microsoft. His quest has attracted quiet support from other companies that feel burned by their dealings with the software giant. For this Brit, who still believes in the vision of a multimedia wireless Web, nothing could be sweeter than to see Microsoft put in its place.

By Andy Reinhardt in Birmingham, England, with Jay Greene in Seattle

SEPTEMBER, 2001	MAY, 2002	OCTOBER, 2002	NOVEMBER, 2002	DECEMBER, 2002
on cash, Sendo \$14 MILLION LOAN Microsoft, which res delivery tones.	Microsoft demands FOUR-DAY TECHNICAL AUDIT OF Z100. Sendo now says Microsoft used review to debug a rival smart phone.	SENDO NEAR BANKRUPTCY as rival phone intro- duced by Orange. Brogan ends Microsoft contract.	Brogan announces Sendo has CANCELED Z100 and signed up to use Nokia software instead.	SENDO SUES MICROSOFT, alleging 13 counts of fraud and conspiracy. Microsoft expected to respond on Feb. 3. Date: Sendo, BusinessWeek



SWITZERLAND

WORK YOUR MAGIC, HERR DORMANN

ABB faces meltdown—so this CEO isn't wasting any time

Jürgen Dormann built his reputation as the CEO of Hoechst and the founding chairman of Aventis, which he helped create by merging the pharmaceutical interests of Germany's Hoechst and France's Rhône-Poulenc in 1999. Why, then, would this 62-year-old exec want to clean up the horrendous mess at ABB Ltd., the maker of electrical and capital goods? Interviewed at ABB's modest Zurich headquarters, Dor-

lost \$161 million in 2002—after losing \$691 million in 2001—and it forecasts a net income of only \$13 million in 2003.

ABB's very existence is at stake. If Dormann is in over his head, then one of Europe's largest companies, with some \$23 billion in sales and close to 150,000 employees, will probably be broken up. But those who have watched Dormann up close give him a good shot at saving a fair-sized chunk of ABB. "If I

room to reverse a long slide. The company has some world-beaters such as power systems, robots for auto plant and process controls for heavy manufacturing. But for these to shine, Dormann needs to put the asbestos issue to rest, restore profits, and pay down del-

Dormann is shedding assets both to raise cash and sharpen the focus. He sold ABB's finance division to General Electric Co. in December for \$2.3 billion and has put the oil-and-gas and building systems arms on the block. These units could pull in an additional \$2.5 billion or more. Late last year, he lumped ABB's remaining businesses under two banners: power technology and automation. "I am trying to identify our competitive edge," he says. He's also dismantling much of the legacy of Percy Barnevik, the ABB boss whose aggressive

expansion left the company saddled with many poor performers and a ruinous exposure to asbestos suits.

The turmoil has yet to damage ABB's vital businesses. "At the customer level, they have not been severely damaged. It's amazing," says Craig D. Resnick, a manufacturing analyst at ARC Advisory Group in Dedham, Mass., which tracks capital-goods makers.

Investors are hoping ABB's strengths will come through even more once the curtain comes down on those asbestos claims, which arise from past practices of Combustion Engineering, a Stamford (Conn.) subsidiary ABB bought in 1990. In a deal worked out with lead plaintiffs' lawyers on Jan. 17, ABB has promised to create a \$1.2 billion trust fund to settle claims. To ensure it doesn't get another deluge of lawsuits, ABB plans to put Combustion Engineering into a prepackaged Chapter 11 bankruptcy by the end of February. That would



SHARPENING
ABB'S FOCUS

Agenda for a Turnaround

SINCE TAKING THE REINS OF ABB LAST SEPTEMBER

DORMANN HAS:

- Negotiated a \$1.2 billion settlement that should draw the line on asbestos.
- Simplified ABB's byzantine structure into two operating divisions: power technology and automation.
- Sold off the structured-finance business to GE for \$2.3 billion.
- Promised a \$1.3 billion cost-cutting program.

DORMANN MUST STILL:

- Boost slim margins and the low revenue-per-employee ratio. A further 30,000 jobs could go.
- Sell off noncore businesses, including oil-and-gas equipment and building systems.
- Improve junk credit rating.

Data: Company reports, *BusinessWeek*

mann has a ready answer: "The way I was raised and trained, you don't run away from a challenge."

Rescuing ABB is probably the biggest challenge Dormann has ever faced. Merely reading the financial figures would make any normal boss want to take early retirement. ABB's net debt of \$2.6 billion is not far off its puny market capitalization of about \$3.2 billion. Its share price has dropped to \$2.86 from \$33 just three years ago, and ABB faces huge liabilities from asbestos lawsuits. Morgan Stanley estimates ABB

were allowed to buy the shares, I would," says one executive who knows Dormann well.

Dormann, who took over as ABB's CEO last September, isn't wasting any time. He is close to settling U.S. asbestos litigation that threatened to bankrupt ABB. In December, he wrapped up a tough negotiation with banks led by Citigroup and Credit Suisse First Boston for a \$1.5 billion credit facility that yanked ABB back from the edge.

The big question is whether Dormann can take advantage of the breathing

make the pact permanent.

The so-called master settlement needs the endorsement of 75% of plaintiffs. Both sides say the proposal should easily pass, in part because ABB upped the size of its trust fund by \$100 million, very generous for a cash-strapped company. But some plaintiffs think the deal unfair and may try to overturn it on appeal, a process that could drag on for years. Dormann will have to deal with ABB's disastrous past for a while longer.

By Stanley Reed in Zurich and Michael Arndt in Chicago



LOCAL HERO

Operations chief Gupta stood up to U.S. bosses and changed pricing, ads, and products to appeal to local tastes

rector three years ago, the boyish, straight-talking Gupta persuaded his Coke bosses to change the way they do business. Gupta's first step: revitalizing Thums Up, a sweeter local cola that Coke acquired in 1993 but proceeded to neglect. The brand's market share slipped from more

than 60% of carbonated beverage sales to just 15% by 1998. After Atlanta gave the green light to push local brands as much as Coca-Cola, Gupta spent \$3.5 million to beef up advertising and distribution for Thums Up. Within a year, he built it into India's No.2 soda.

Then Gupta persuaded Atlanta to revamp pricing and advertising for Coca-Cola. In 2001, he launched a new size, a 6.8 oz. bottle for 10¢, aimed at rural areas and lower-income urban markets. This year he reduced the price of a 10.1 oz. bottle to 17¢ from 24¢. The price cuts were key to boosting sales and the little bottle was a big hit. Gupta expects it to represent 50% of sales by volume this year. And last year, Gupta's team introduced a new ad campaign that equates Coke with "thanda," the Hindi word for "cold," which caught the imagination of Indians. Breaking with Coke tradition, Gupta also hired a celebrity spokesman, Bollywood movie star Amir Khan, to pitch the brand. "Coke had to break a lot of its rules for India," recalls Ashok Jain, the former head of Cadbury Schweppes PLC in India, who quit Schweppes after Coke bought it in 1999.

The company has been cutting costs, too. Although Coke owns 70% of its bottlers, many of them were outdated operations inherited from the Thums Up purchase. Over the past three years, it has shut down eight of them, which helped trim the payroll by 23%, to 5,000. And it saved 57% on import duties by using more local raw materials. "We have turned a corner," says N. Sridhar, Coke India's finance director. "This will release our energies to concentrate on building market share." Next up: A \$150 million investment to expand Coke's bottling and distribution network. The subcontinent isn't a mother lode for Coke yet. But the company sure is trying to make it one.

By Manjeet Kripalani in Bombay, with Mark L. Clifford in Hong Kong

NDIA

FINALLY, COKE GETS IT RIGHT

The company finds its footing in India after years of missteps

You might think selling soft drinks in India would be a romp for Coca-Cola Co. The country has a billion-plus consumers, a growing middle class, and the climate is hot, hot, hot. Look a little more closely, though, and this market is more minefield than mother lode. Sure, Coke's various beverages have more than half the market. But its flagship brand—Coca-Cola—ranks a distant third among colas, with an estimated market share of 16.5%, far behind arch rival Pepsi-Cola's 23.5%. "The environment in India is challenging," says Alex von Behr, a Briton who is president of Coke India. "But we're learning how to crack it."

The learning curve has been steep. In 1993—15 years after being thrown out by India's socialist government—Coke stormed back into the country with big plans to wrest control from Pepsi and the local beverage makers that had arisen in its absence. Instead, the company spent years on the defensive after overestimating the size of the market, misreading consumers, and battling with the government. It has suffered losses in India for years, and although execs won't reveal financial details, Coke wrote down the value of its Indian bottling assets by \$405 million in 2000.

Finally, though, Coke is starting to inject some fizz into its Indian operations. On Feb. 28, the company plans to sell

49% of its Indian bottler, Hindustan Coca-Cola Beverages, for \$41 million. The sale won't be the domestic stock listing that some in New Delhi had sought. Instead, the shares will be sold in a private placement with institutional investors and employees. But it puts to rest an issue that had chilled relations with the government, which wanted Indians to own part of Coke's local operation. And Indians appear to be developing a taste for Coke products: The company's overall sales in India jumped 24%, to \$940 million, last year. "Coke lost a number of years over errors," says Jagdeep Kapoor, chairman of Sam-sika Marketing Consultants in Bombay. "But at last it seems to be getting its positioning right."

That will come as a great relief at Coke headquarters in Atlanta. India, with soft-drink consumption of just seven 8-oz. servings per capita annually, holds more potential for growth than just about any market on earth. By contrast, neighboring Pakistan hoists an average of 14 servings per year, and in Mexico, the world's hottest soda market, it's nearly 1,500 servings. Determined to boost growth, Coke this year cut prices by 15% to 25%, forcing Pepsi to follow suit. "India is the beverage battlefield for 2003," says Ronald S. McEachern, PepsiCo's Asia chief.

Key to Coke's battle plans is operations chief Sanjeev Gupta. After being promoted from marketing di-

COKE IN INDIA: ROOM TO GROW

ANNUAL PER CAPITA CONSUMPTION OF SOFT DRINKS, 8-OUNCE SERVINGS, ALL BRANDS



Once upon a time,
there was a mid-sized company
in peril of losing business. They
weren't connected. They couldn't share
information about their customers. They couldn't
communicate inside of *their own* four walls. So they bought a
Universal Business Adapter (UBA). The box said that it could "connect anything
to everything." There were prongs for e-mail. Payroll. Servers. It could make the
incompatible, compatible. There was only one problem – it was a lemon. It didn't work.

AND THAT'S WHEN THEY CALLED IBM.

IBM can help you serve up information across your entire company. *On demand.*
Across departments, across disciplines. when you want it. Wherever data's stored.
We have people and Business Partners to help. along with IBM WebSphere® software,
the world's #1 integration software. Lose the adapter. Head to **ibm.com/ondemand**



IBM

@ business on demand

Is there something you don't know
about your *cost structure*?

Are there leaks in your cost structure? Do you know where those leaks are? If you're working with Business Objects, you'll know. Our business intelligence software gives you instant visibility on costs throughout your organization, and in all your customer and supplier relationships. So you'll have the intelligence you need to keep your costs under control. And your profits from trickling away. Business Objects is the world leader in business intelligence software, with over 15,000 customers. To find out what they know that you may not, visit www.businessobjects.com/finance. And download our free white paper "Business Intelligence – Now More Than Ever." Or call Business Objects at 1-800-527-0580 ext. 35.



BUSINESS OBJECTS®

Business Intelligence. If you have it, you know.™

EDITED BY ROSE BRADY

THE FRANCO-GERMAN ALLIANCE THAT'S SPLITTING THE EU

The U.S. reaction was swift. When President Jacques Chirac and Chancellor Gerhard Schröder announced on Jan. 22 their united opposition to a possible American-led war with Iraq, U.S. Defense Secretary Donald H. Rumsfeld declared just hours later that "Germany has been a problem, and France has been a problem." Rumsfeld even dismissed the two longtime allies as "old Europe."

Since that stinging rebuke, diplomats the world over have been talking about the widening rift between Washington

and Continental Europe's biggest powers. It could take a long time for the scars to heal, even if—as some U.S. officials think likely—Paris ultimately joins in an anti-Iraq coalition. Less noticed, however, is the potentially longer-lasting damage that the Franco-German alliance is inflicting on Europe. Plenty of governments are uneasy about the Franco-German alliance of the U.S. Moreover, recent deals between Paris and Berlin on key issues, from European Union institutions to defense, threaten to split the Continent and paralyze the EU's already glacial decision-making.

Britain, Spain, Italy, and other EU nations are angered by moves they view as heavy-handed. The fear is that Paris and Berlin want to set the clock back more than 20 years, to a time when the two countries did indeed make policy for the entire Continent. In today's vast, expanded Europe, smaller members argue, the French and Germans can no longer set the rules. That will be even truer with the entry of 10 new states into the fold in 2004. That's why EU members such as Spain will likely fight to shoot down the Franco-German proposals. "There's a real concern that the game has changed dramatically," says Rafael Badarji, deputy director of Madrid's Elcano Royal Institute for International & Strategic Studies. "Can Berlin and Paris be the only ones speaking for Europe?"

In fact, the desire by Chirac and Schröder to carve out a united EU foreign policy is having the opposite effect. Schröder's anti-American rhetoric during his reelection campaign had already sparked concern in Europe. Then, the Franco-German position on Iraq was declared "without the least prior consultation with us or any other European partners," complains a top aide to Italy's Prime Minister Silvio Berlusconi. "This is a weakening of the whole process of consensus building in the EU."



DEFIANT: Schröder, Chirac

Europeans left out in the cold by the Franco-German alliance are rushing to reinforce their ties with Washington. Berlusconi, a staunch U.S. supporter, is heading for talks in Washington on Jan. 30, to be followed by Britain's Tony Blair. Formerly communist Poland, invited to join the EU in 2004, is also backing Washington. "We're far closer to the Americans on [Iraq] than to the Germans and French," says former Defense Minister Janusz Onyszkiewicz, now with Warsaw's Center for International Relations. "If you start taking a head count," says a Bush Administration official, "Europe is not against us."

How the split within the EU plays out depends not only on Iraq but also on economic issues. Scandinavia, Britain, Ireland, and Spain are now outpacing France and Germany in growth and structural reforms. These countries are vexed by the ballooning budget deficits of France and Germany and their resistance to market-opening measures. The faster-growing economies "increasingly think there is one set of rules for the big two and another set for the rest," says the London-based head of one investment bank. That suggests a political showdown is looming, even as the Continent waits to see what the U.S. does about Iraq.

*By John Rossant in Paris,
with Stan Crock in Washington*

GLOBAL WRAPUP

FRENCH CORRUPTION—NON?

► A Paris appeals court overturned the bribery conviction of ex-Foreign Minister Roland Dumas, in a fresh blow to French magistrates whose high-level corruption investigations have been repeatedly thrown out by judges. Dumas was convicted in 2001 of placing his mistress on the payroll of formerly state-owned oil company Elf Aquitaine, then accepting gifts from her that were financed by Elf. But the appeals court ruled on Jan. 29 that prosecutors failed to prove that

Dumas knew Elf paid for the gifts.

Meanwhile, Bank of France President Jean-Claude Trichet took the stand on Jan. 27-28 to deny charges that as a banking regulator in the '90s he deliberately overlooked falsified accounting reports from then-state-owned bank Crédit Lyonnais. If convicted, Trichet would be barred from the presidency of the European Central Bank, a post he is to assume in July.

EGYPT'S NEW CURRENCY REGIME

► Egypt surprised the financial markets on Jan. 29 by floating its curren-

cy, the pound, which has previously been maintained at a managed rate. The move came after three years of recession, thanks in part to an overvalued currency, which makes Egyptian exports uncompetitive. The International Monetary Fund has for years urged a free float for the pound, but President Hosni Mubarak's government has dawdled, fearing that a drop in the currency might be interpreted as a sign of instability. On the first day of the new regime, the pound tumbled 15%, to a rate of 5.34 pounds to the U.S. dollar.

CEO Rick Wagoner has fixed many of GM's problems. But he still has to deal with 30 years of management mistakes

It's a chief executive's nightmare. The better you execute, the more improvements you make—the more your stock drops. That was the position G. Richard Wagoner Jr. found himself in last October. A day after General Motors Corp. announced that it had lifted operating earnings 30% in a stagnant car market, Standard & Poor's downgraded the auto maker's debt with no warning. Surprised investors rushed to sell, and the stock dropped 8%. Credit analysts pointed to GM's \$76 billion pension fund, which they estimated at the time to be underfunded by as much as \$23 billion. GM will have to plow in billions of dollars for years to keep the fund flush, they said.

The earnings gain was no accounting fluke, either. GM

Cover Story

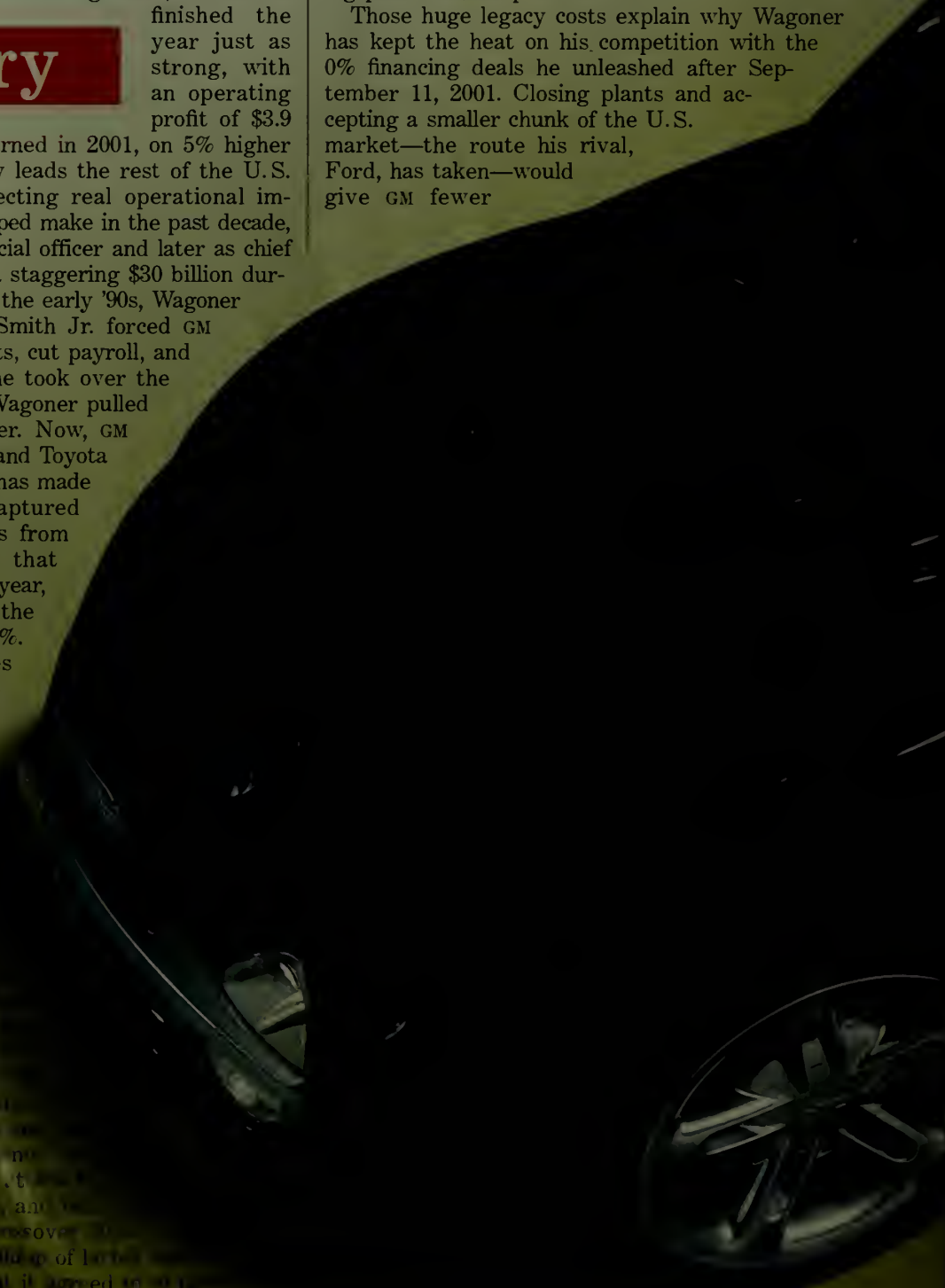
finished the year just as strong, with an operating profit of \$3.9 billion, nearly double what it earned in 2001, on 5% higher sales of \$186.2 billion. GM clearly leads the rest of the U.S. Big Three car companies, reflecting real operational improvements that Wagoner, 49, helped make in the past decade, starting when he was chief financial officer and later as chief operating officer. After GM lost a staggering \$30 billion during a single three-year stretch in the early '90s, Wagoner and Chairman John F. "Jack" Smith Jr. forced GM back to basics. They slashed costs, cut payroll, and overhauled aging plants. Once he took over the corner office in May, 2000, CEO Wagoner pulled the efficiency collar even tighter. Now, GM ranks close to Honda Motor Co. and Toyota Motor Corp. in productivity and has made strides in quality. GM also recaptured leadership of the truck business from rival Ford Motor Co., a coup that made the company billions. Last year, GM even nudged up its share of the U.S. market, to 28.3% from 28.1%.

But as good as those moves are, they pale next to the problems of GM's weak car brands and gargantuan pension payments. In essence, Rick Wagoner is battling 30 years of management mistakes that have left him with immense burdens and very little room to maneuver. Chief executives from Eric Donner to Roger Smith built up a bloated bureaucracy, cranked out boring, low-quality cars, fought turf battles at headquarters, and squandered resources and diverted attention from the rising threat out of Asia and Europe. Those competitors drove a wedge into the U.S. car market. Now they're on the same in sport-utility vehicles, the last bastion of U.S. dominance. The most profitable segment is also under attack from environmentalists and safety regulators, and buyers are flocking to smaller crossovers.

Even worse for GM was the buildup of hefty retirement benefits for workers that it agreed to in 1980

as a way to buy peace with the United Auto Workers. The company says the gap between its pension funding and future liabilities is now \$19.3 billion. That means GM will have to pump as much as \$4 billion into the fund over this year and next. Providing health care to former and current workers will drain an additional \$5 billion per year. The pension cost alone will cut projected 2003 net income from \$4.2 billion to \$2.8 billion. Providing for retirees saddles each car rolling off a GM assembly line with a \$1,350 penalty vs. a Japanese car built in a new, nonunion U.S. plant, says analyst Scott Hill of Sanford C. Bernstein & Co. That's a daunting handicap in an industry that struggles to make an average operating profit of \$800 per vehicle.

Those huge legacy costs explain why Wagoner has kept the heat on his competition with the 0% financing deals he unleashed after September 11, 2001. Closing plants and accepting a smaller chunk of the U.S. market—the route his rival, Ford, has taken—would give GM fewer



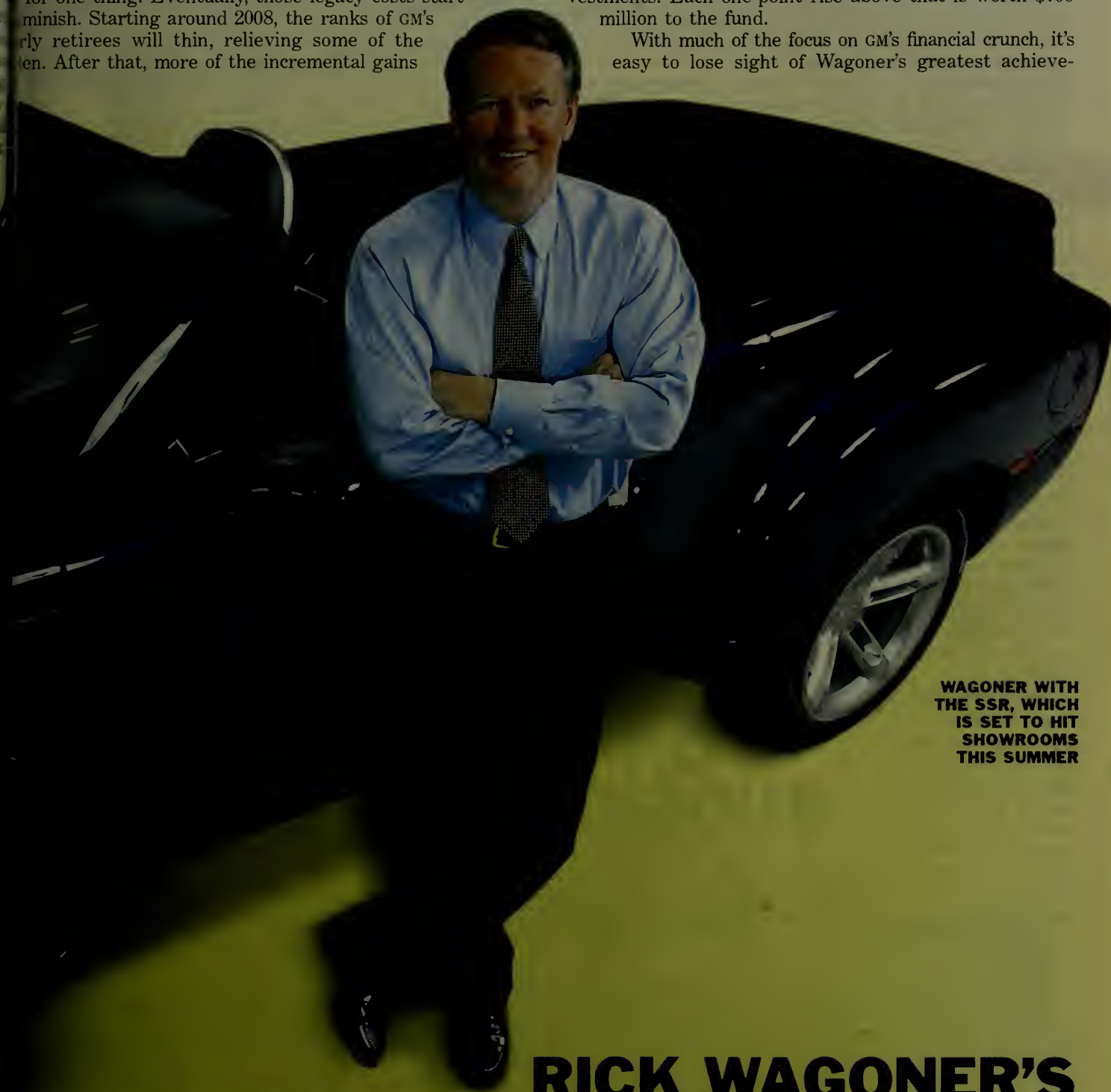
les over which to spread those big pension and health-costs. And thanks to an onerous deal it struck in 1990 the UAW, GM has to pay furloughed workers about 70% of salary for years after they're laid off. Says Wagoner: "We have a huge fixed-cost base. It's 30 years of downsizing 30 years of increased health-care costs. It puts a premium on us running this business to generate cash....Our goal is to grow. We don't care who we take it from."

all that would make the outlook for GM pretty bleak, except for one thing: Eventually, those legacy costs start to diminish. Starting around 2008, the ranks of GM's early retirees will thin, relieving some of the burden. After that, more of the incremental gains

Wagoner has been achieving will fall to the bottom line rather than to retirees. The results could be dramatic.

That makes Wagoner's imperative clear: He has to keep up cash flow to cover those costs until they start to shrink. At the same time, he must continue to rack up improvements in quality, efficiency, design, and brand appeal. If he can come anywhere close, he just might pull off an impressive turnaround. A stock market rebound would help immensely. GM's pension fund holds its own if it earns 9% a year on its investments. Each one-point rise above that is worth \$700 million to the fund.

With much of the focus on GM's financial crunch, it's easy to lose sight of Wagoner's greatest achieve-



**WAGONER WITH
THE SSR, WHICH
IS SET TO HIT
SHOWROOMS
THIS SUMMER**

RICK WAGONER'S GAME PLAN



GM is now the lowest-cost producer among

ment—and the best reason to believe that he might beat the legacy monster. Walk around GM's sprawling headquarters complex today and you soon realize that against all odds, Wagoner is making real progress in energizing GM's torpid culture. He broke with GM tradition by recruiting two respected outsiders for key positions—Robert A. Lutz as head of product development and John Devine as vice-chairman and chief financial officer. And he has given them extraordinary leeway to fix the company's problems.

To motivate his team, the self-effacing Wagoner leaves his ego at the door and lets his executives do their jobs. "Rick acts more like a coach than a boss," says David E. Cole, director of the Center for Automotive Research (CAR) in Ann Arbor, Mich. Thus it

Cover Story

was Lutz who rolled out Cadillac's lavish Sixteen prototype luxury car at the Detroit auto show earlier this month as Wagoner sat in the background. Afterward, Wagoner chatted with a few reporters while Lutz held court beside the 16-cylinder vehicle, surrounded by a huge crowd, drinking a martini, and wearing someone's lipstick mark on his cheek.

That low-key style has helped Wagoner in tearing down GM's warring fiefdoms. Since giving the swaggering Lutz rule over product development, Wagoner has spiked the design-by-committee system and cut the time it takes to develop a new car to 20 months from nearly four years. GM used to have different studios for each division working on car designs that would get passed on to marketing, then engineering, then manufacturing. Lutz has one committee to cover the entire process. Every Thursday, he hashes out what vehicles should look like and which division will build them, along with a small group that includes Group Vice-President for Advanced Vehicle Development Mark T. Hogan, GM North America President Gary L. Cowger, Design Chief Wayne K. Cherry, and Chief Engineer James E. Queen.

But low-key doesn't mean hands-off. Lutz may make the day-to-day decisions on car design, but Wagoner reserves final say. He meets monthly with top execs, who see car designs much earlier in the process. The ones they think are promising move ahead fast. Says retired executive Richard C. Nerod, who ran GM's Latin America operations: "Rick cut out a lot of the infighting and the bull----."

Wagoner also exerts control by imposing tough performance standards. A legendary number-cruncher who rose up through GM's finance division, he holds top managers to strict measures. GM, like most big companies, always had performance goals. But they never went nearly as deep or into as much detail. Says Cowger: "Everything can be measured."

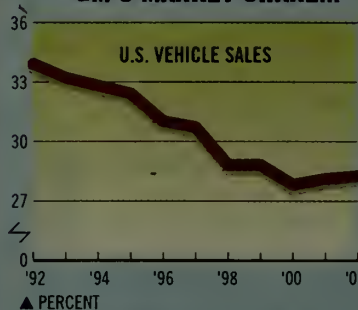
Everyone, too. Even Lutz, the larger-than-life product czar who flies his own fighter jet and sparked Chrysler's 1990s resurgence with cars such as the Dodge Viper and PT Cruiser, isn't exempt. Lutz was judged on 12 criteria last year, from how well he used existing parts to save money in new vehicles to how many engineering hours he cut from the development process.

Clearly, Wagoner's own ideas on how to fix GM have evolved. He seems to have learned from a brush with grand

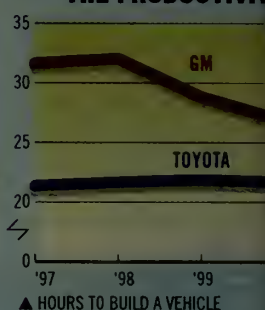
research (CAR) in Ann Arbor, Mich. Thus it

MALIBU ON A BUDGET

WAGONER STABILIZED GM'S MARKET SHARE...



...AND IS NARROWING THE PRODUCTIVITY



Data: General Motors Corp., Toyota Motor Corp., Harbour & Associates, Sanford C. Berns

strategic vision back in the '90s, when, like now-departed Ford CEO Jacques A. Nasser, he explored ways to grow on the side of building cars. Wagoner was behind the decision to pump hundreds of millions into GM's OnStar Corp. telematics business and DirectTV satellite-TV service. Neither produced big revenues for GM. Now, with Devine applying a cold dose of realism to GM's finances, there's little illusion that such versions can fix the cash crunch. "That was a dream a couple of years ago, but it's not reality," Devine says. "The math doesn't tell you that the principal driver of revenue and profits is the car-and-truck business in North America and Europe."

If Wagoner has brought a new intensity to GM, he probably gets it from his mother, Martha, a onetime school teacher. Family members recall one Christmas several years ago when she doggedly kept baking cookies despite a broken arm. "My mom has a task orientation that you sometimes find in my brother," says Judy Pahren, a financial-services manager who is one of Wagoner's two sisters. Rick had a Norman Rockwell upbringing in Richmond, Va. He picked up a ra-

One of Wagoner's biggest accomplishments has been reducing the time and money it takes to build vehicles. Here are some of the savings GM has wrung out of one mainstay car, the 2003 Chevy Malibu, compared with two other midsize sedans, the Oldsmobile Intrigue and Pontiac Grand Prix, that previously were built at the same Fairfax (Kan.) plant.

THE DESIGN GM designed the Malibu so that fewer workers can assemble more cars.

PAYOFF GM should be able to build the Malibu with 18 to 19 hours of labor instead of 24 hours.

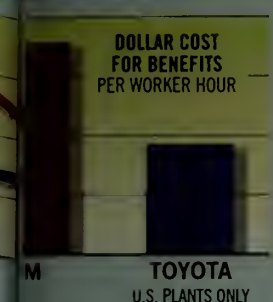
THE PLATFORM GM engineers in the U.S., Germany, and Sweden worked together to share the same platform and other parts for the company's Chevrolet Malibu, Opel Vectra, and Saab 9-3 midsize sedans.

PAYOFF Engineering costs were cut by one-third.



Three—and it's not far behind Toyota and Honda

HOW MUST TACKLE IMPACT OF HIGH COSTS...



...AS THE STOCK MARKET CLOBBERS ITS PENSION FUND



Wagoner's devotion to Duke University basketball from his father, George, an accountant at Eskimo Pie Co. Wagoner got a chance to play for the Blue Devils as a walk-on. He demonstrated a deft shot but learned the limits of his athletic ability. "The knock on Rick was that you couldn't slide a phone book under his jump," says roommate Charles H. McCreary. The devotion to alma mater remains, though: A few years ago, he ordered a custom "Duke blue" Suburban SUV. After Duke, Wagoner got his MBA at Harvard Business School, surprising some upon graduation when he chose GM over potentially more lucrative jobs on Wall Street. Wagoner's knack for crunching numbers propelled him through stints at GM units in Canada, Europe, and Brazil. His big break came in 1992, when then-CEO Smith tapped him to be CFO after a boardroom coup. Even as CEO, Wagoner is known for a low-key lifestyle. He prides himself on juggling his work schedule to attend games and other activities of his three sons. And when entertaining, Wagoner is more likely to cook on his backyard grill than hire a caterer.

INTERIOR GM gave French interior supplier Faurecia a contract for seats for the Malibu, Vectra, and Saab 9-3. **PAYOFF** GM got seats made of more comfortable and durable materials for the price of cheaper seats.

Wagoner's willingness to let others shine is a classic trait of leaders who have boosted their companies to exceptional performance, says Jim Collins, author of *Good to Great*. As a longtime GM insider, Wagoner has other advantages: He knows what brutal facts need to be confronted, and he can assess which veterans can handle key jobs. Says Collins: "Wagoner has the opportunity to take it back to great." But the odds are stiff—only 11 of 1,435 companies Collins studied made such a lasting transformation. And those that did required an average of seven years to get breakthrough results.

Still, competitors are impressed with the progress Wagoner has made. "I'm a big admirer of his management style," says crosstown rival William C. Ford Jr., chairman and CEO of Ford. He should be—GM's operating profit may not match the \$4.6 billion No. 3 Toyota made in just the six months through September. And GM's stock, trading around 37, is down 26% from a year ago. But that performance sure beats Ford's \$872 million operating profit and 36% lower stock price.

It's a testament to Wagoner's ability to cut costs that GM managed nearly to double margins in North America last year, to 2.6% of sales. Thanks to efficiency gains, GM is now one of the leanest car builders, with variable costs—labor, parts, outsourced production, etc.—amounting to 62% of revenues, according to UBS Warburg. That puts it ahead of Ford and Chrysler at 68%, and it isn't far behind leaders Toyota and Honda at 60%.

With lower costs than its domestic competition, GM is better able to withstand the price war it started with 0% financing. But Wagoner is betting that the cars he plans to launch in the next three years will be good enough to sell on merit, not price. A few "niche" vehicles, such as the hulking Hummer H2, are already out. But the assault begins in earnest later this year with the Chevy Malibu family sedan and Equinox car/SUV crossover, Cadillac SRX small SUV, and Pontiac Grand Prix sedan. "This is one major last-ditch effort

THE GAS TANK The Malibu and Saab 9-3 share the same gas tank, saving on engineering and safety tests. **PAYOFF** The tank's cost is 30% lower.



PAYOFF Development costs are 30% lower for those components.

LEGACY COSTS

PROBLEM GM has huge obligations owed to 360,000 union retirees who worked in factories during its heyday. They make up much of GM's \$5 billion annual health-care bill, and funding their pensions will siphon \$1.4 billion from 2003 profits.

SOLUTION Selling assets, such as GM's defense operations and the Hughes Electronics satellite-TV unit, will raise billions. But GM needs to generate more cash from its auto operations.

INSTALLING WINDSHIELDS ON CORVETTES IN THE '50s



IMPORT THREAT

PROBLEM Honda, Toyota, and others are stealing car buyers and eyeing GM's lead in trucks. Over the next few years, foreign companies will open three big new U.S. factories, adding 8% to total capacity.

SHOPPING FOR A TOYOTA IN EL MONTE, CALIF.

SOLUTION GM is overhauling its lineup with new entries such as the Pontiac Grand Prix, Chevy Equinox, and Saturn Ion. But Lutz has to come up with more world-class vehicles, and GM must cut its cost gap with foreign-owned plants.

to save themselves in the car market," says Joseph Phillippi, a former Wall Street analyst who consults for the industry.

Wagoner, who's not a classic Detroit "car guy," seems content to rely on Lutz and his team to fix the lineup. During one trip through the design studio last year, he spotted a sexy two-door version of the Cadillac CTS sports sedan. "I hope you

guys figure out a way to build that," Wagoner said, but offered no solutions, recalls

one senior designer. "Rick trusts my judgment implicitly," Lutz says, "but if I came up with some wacky product proposals, he'd pull me back."

The most dramatic gains won't come on a sketch pad anyway but in the way GM selects new car designs and then shepherds them through production. In the past, even if a bold design made it off a drawing board, it had little chance of surviving to the showroom. A concept would go from a designer to the marketing staff, which would try to tailor it to consumers. Then it would go to engineers, who would try to figure out how to build it, and so on. Separate teams worked with suppliers, factories, and parts suppliers on their individual slice of the process, with little interaction.

It was a recipe for mediocrity—and often disaster. The Aztek, which emerged in 2000 as a boxy, garish cross between an SUV and a minivan five years after designers first drew it up as a racy bid for younger drivers, is a prime example.

Wagoner was determined to tear up that system by the roots. A few months

after taking over, he ordered GM's product developers to redo the SSR concept vehicle for production. A combination of hot rod and pickup truck, it had been a big hit at the Detroit auto show. Wagoner thought its distinctive look, with chrome bars splitting the front grille and taillights, would be a great image builder. But the SSR still had to navigate the old GM system. Because it was announced before engineers had a precise blueprint to build it, the program quickly ran over budget. Today, its cost has ballooned way past the original \$300 million projection, almost \$500 million. The \$42,000 SSR will hit showrooms this summer, a quick turnaround for GM. But with only 5,000 sold projected per year, it makes for a very expensive showcase.

Since then, Wagoner and Lutz have smoothed things out a bit. Lutz, Cowger, Hogan, and the others decide what goes from the design studios into the funnel of cars that will be considered for funding by GM's Automotive Strategy Board, chaired monthly by Wagoner. Lutz says he and Wagoner have disagreed on some product decisions, but he hasn't been turned down yet. Now, 75% of the engineering work is finished when a program manager sits down to build a car.

That's how GM quickly green-lighted plans to resurrect the Pontiac GTO, its famous 1960s muscle car. For years, Pontiac and Chevrolet wanted a brawny car with rear-wheel drive, which is favored by driving enthusiasts. GM's Australian Holden Ltd. subsidiary had a promising candidate, its Monaro sports coupe, but the idea to bring it to the U.S. never made it out of committee. GM execs simply didn't want to spend what little money it would take to alter the Monaro to meet U.S. safety standards and American styling. Says Lutz: "I just asked, 'Why not?'" GM got the program t

Cover Story

CHEVY CHEYENNE CONCEPT



To offset high health and pension costs, GM needs hot cars that bring in cash

The

“STOP
LIVING
DANGEROUSLY”

storage software company.

86% of the FORTUNE 500® rely on VERITAS Software for data backup and recovery.

veritas.com


VERITAS™

Copyright © 2003 VERITAS Software Corporation. All rights reserved. VERITAS, the VERITAS Logo and all other VERITAS product names and slogans are trademarks or registered trademarks of VERITAS Software Corporation. VERITAS and the VERITAS Logo Reg. U.S. Pat. & Tm. Off. All other trademarks are the property of their respective owners.



To woo car buyers, GM uses incentives that cost \$3,800 per car—twice what Toyota spends

gether in less than 18 months. Later this year, Pontiac will roll out the GTO as a 340-horsepower Americanized Monaro.

Wagoner has also streamlined GM's factories. GM is now the most productive domestic auto maker, having cut the time it takes to assemble a vehicle from an average of 32 hours in 1998 to 26 hours in 2001, according to Harbour & Associates.

Cover Story

That compares with 27 for Ford, almost 31 at DaimlerChrysler, 22.5 at Toyota, and 17.9 at Nissan. A big factor was expanding parts shared across vehicles. The new Chevy Malibu, for instance, uses the same platform and many of the same parts as the Saab 9-3 sedan (table, page 54). GM's plants are also more flexible—each of seven full-size pickup and SUV plants can make any of the vehicles designed on that platform.

The cars rolling off GM's assembly lines today are undeniably better built than they used to be. Once ranked below the industry average, GM trails only Honda and Toyota in J.D. Power & Associates Inc.'s initial quality survey, which measures problems in the first 90 days of ownership. Some cars, such as the Chevrolet Impala, even beat the likes of the Toyota Camry. Last year, *Consumer Reports* recommended 13 GM vehicles—representing 41% of its sales volume—up from 5 last year. But one of GM's most stubborn woes is that many buyers still perceive the Chevy, Pontiac, and Buick brands as musty and second-rate. GM needs incentives averaging \$3,800 a vehicle—more than twice what Toyota spends.

The biggest risk to GM's lineup is at the top. Its popular SUVs and pickups accounted for about 90% of profits last year

but are under increasing assault from foreign competitors and safety regulators. Like his competitors, Wagoner is betting on crossover vehicles, which combine SUV-like space looks with a carlike ride and better fuel economy, as a hedge against a big-truck backlash. Cadillac's luxury SRX hits market this year as a viable rival to the Lexus RX 330 Mercedes M-class, and Chevy will launch its Equinox as a wheel drive crossover. Next year, GM will start offering pickups and SUVs with hybrid gas/electric engines. New designs are also in the works. Lutz has tentatively approved a highly stylized 2007 replacement for the Chevy Silverado and Sierra pickups, which hold a commanding 40% of the pickup market. It will be based on the slick Cheyenne concept that GM unveiled in January, which has improved driver, passenger room and doors on each side of the pickup bed to provide easier cargo access. But in small SUVs and gas mileage GM is playing catch-up to the Japanese.

Wagoner and his team have little choice but to wait out the biggest mess—those massive health and pension costs. Wagoner is brutally realistic: "We'd be accused of a pipe dream if we said in 10 years these issues will go away." GM pays its UAW workers only slightly more per hour than Toyota, Honda, and Nissan pay their American factory workers. But the cost of pension and health-care benefits for current workers is huge—at \$24 per hour at GM, vs. \$12 at the foreign factories. Pension obligations swelled after the 1990 contract, when then-Chairman Robert Stempel practically guaranteed almost no layoffs. Underestimating the speed of its decline, GM agreed to pay workers for years after a furlough. As losses mounted, GM resorted to early-retirement offers—avoiding billions in unemployment

GM'S BIG THREE

Wagoner has handed over much of the responsibility for fixing the carmaker's long-term problems to two top lieutenants, Bob Lutz and John Devine. Hired out of retirement from Chrysler and Ford, they instantly raised GM's management profile.



G. RICHARD WAGONER JR., 49

CURRENT TITLE CEO and chairman-elect

BACKGROUND Wagoner was hired as an analyst in GM's New York treasury office in 1977 and became a noted number-cruncher. Won the post of treasurer for GM's Brazil unit. Raced along the fast track through GM's

finance operations until he was tapped by then-CEO Jack Smith to be CFO in 1992.

WHAT HE HAS TO DO Gets lots of credit for improving GM's efficiency and quality. Now, he has to keep the cash coming in and rebuild GM's market share while steadily working to reduce the carmaker's high costs for health-care and pension obligations.



ROBERT A. "BOB" LUTZ, 70

CURRENT TITLE Vice-chairman for product development

BACKGROUND A classic "car guy," he worked at BMW and all of the Big Three carmakers, developing some of their hottest vehicles: Chrysler's Dodge Viper sports car, the Dodge Ram pickup, and the PT Cruiser. Retired after Chrysler's 1998 acquisition by Daimler, to run battery maker Exide.

WHAT HE HAS TO DO Lutz was hired to teach GM how to design cool cars again. He has already pushed through some hot roadsters and improved the craftsmanship of GM's interiors.



JOHN M. DEVINE, 58

CURRENT TITLE Vice-chairman and CFO

BACKGROUND A numbers guy at Ford. Spent much of the '80s overseas, including running Ford Japan. Ditched Ford's ill-fated foray into banking. Retired in 1999 to work in venture capital because he didn't agree with now-deposed Ford CEO Jacques A. Nasser.

WHAT HE HAS TO DO Devine has brought new discipline to GM's dealmaking. Now he is working to sell GM's Hughes Electronics subsidiary, which will help make up some of the gap in pension funding.

Multi-million dollar yacht



America's Cup champion

IT'S TIME FOR EXPENSIVE TO GET REACQUAINTED WITH VALUABLE.

Mercury Interactive can transform your IT systems from an expense into a valuable asset.

Your company's software applications and IT infrastructure are a huge investment. And now there's a way to get more value out of your existing information technology. It's called Business Technology Optimization (BTO). It's the way to maximize the quality of your IT-enabled business processes, minimize IT expenditures, and increase the return on your existing IT systems. Mercury Interactive's Optane™ is the world's first BTO software suite. Optane enables you to optimize the entire technology lifecycle — including testing, production tuning and performance management. Mercury Interactive is one of the top software companies in the world and 75% of the Fortune 500 already use our software. To optimize your business technology, visit www.mercuryinteractive.com/bto2



©2003 Mercury Interactive Corporation. Mercury Interactive, the Mercury Interactive logo and Optane are trademarks or registered trademarks of Mercury Interactive Corporation in the United States and/or select foreign countries.

PRIVACY

Occasionally, we may share your name, address and e-mail address with other units within The McGraw-Hill Companies whose products or services we feel may be of interest to you. We may share this same information with other business information companies for the same purpose. Many of our subscribers find these promotions valuable, whether they are shopping for new services or taking advantage of a special offer.

Please be assured that we take your concerns about privacy quite seriously, and we intend to take every reasonable effort to protect it. To that end, The McGraw-Hill Companies has developed a comprehensive privacy policy. If you'd like more information about our use of customer data, please review The McGraw-Hill Companies Privacy Policy located at: www.mcgraw-hill.com/privacy.html.

Please note that this information is stored in a secure location and that access is limited to authorized persons.

If you would prefer not to have your data shared with outside companies, or if you have any questions or comments, or want to confirm the accuracy of the information you have provided, call 1-877-835-6628 or write:

Business Week Customer Service Department
P.O. Box 53235
Boulder, CO 80322-3235



Man's abuse of Earth's natural resources has created a storm that many animals and their habitats have difficulty weathering. Help World Wildlife Fund protect them by ordering a free Action Kit. Together we can help leave our children a living planet.



benefits but adding thousands of retirees. Since GM was shrinking faster than Ford, its pension rolls grew more quickly, to retirees per worker today, vs. Ford's 1-1 ratio. Last year, GM plowed almost \$1 billion into the pension fund to shore up as stock prices fell. But Carol Levenson, an

Cover Story

analyst for bond research firm Gimbels Credit, points out that GM had to take \$4.6 billion in debt to do it. Until the stock and bond markets spring back, three steps forward and two steps back.

That pressure should ease somewhat over the next decade. GM's average worker is 48 years old—five years older than those at Ford or Chrysler. GM's total number of retirees will drop below existing levels by 2010, says CAR's labor and manufacturing analyst, Sean M. Alinden. Wagoner believes that even without another bull market to boost the pension fund, GM can handle the drain and maintain its \$7 billion capital spending budget. Meanwhile, to pay down the pension shortfall, Devine is working to sell Hughes Electronics' DirecTV business, possibly to News Corp.

Closing the gap on health-care costs will be tougher. This summer, GM and the UAW will start working on a new four-year labor agreement. GM is almost certain to ask for higher co-payments from its 138,000 UAW employees. The union is almost certain to balk. "We don't have an interest in cost-shifting," says Richard Shoemaker, head of the UAW's GM department. GM also is one of many companies pushing to have Medicare pick up a greater share of retiree drug costs. But even Wagoner admits: "I don't see that happening soon."

Can Wagoner return GM to dominance? He has made heroic gains. But he's taking nothing for granted. At a speech in Detroit last year, he told the story of William C. Durant, who pulled together such companies as Buick, Cadillac, and Olds to form GM in 1908. But Durant was more interested in cutting deals than managing, so he wound up running a bowling alley in Flint. "That fate has haunted GM chairmen for decades," Wagoner told his audience. He was joking, of course. But Wagoner will be the first to tell you that his own future is up in the air. It all depends on whether he can save GM from its past.

By David Welch, with Kathleen Kerwin, in Detroit

BusinessWeek online

For an interview with GM's Wagoner, see the Feb. 10 issue online at www.businessweek.com

akers



Governor Jeb Bush
(invited)



Erik Brynjolfsson
Professor, MIT Sloan
School of Management;
Director, Center for
e-Business@MIT



Rajiv Dutta
CFO, eBay Inc.



Atefeh Riaz
Senior Partner and
Worldwide CIO,
Ogilvy & Mather
Worldwide



Noel M. Tichy
Professor of
Organizational
Behavior and Human
Resource Management,
University of Michigan
Business School

BusinessWeek

| Events

CFO

The Breakers
Palm Beach

March 19-21,
2003

The BusinessWeek CFO+CIO Forum
Collaborative thinking for business excellence.

Join us as we take collaboration to a higher level. It's a rare opportunity for
CIO's and CFO's to interact, network and share ideas. All in a world-class setting.
To register call **1-800-510-2901** or www.businessweek.com/cfocio

Presented by

Sponsored by

The McGraw-Hill Companies

BearingPoint

MERCURY
INTERACTIVE

sas

VERITAS

Co-sponsor hosted by Enterprise Florida

With support from

RHR

FAMILY FEUDS DON'T GET NASTIER THAN THIS

EDS is suing the former CEO of its A. T. Kearney unit, who's throwing some ugly punches of his own

On Aug. 5, Frederick G. Steingraber, the former CEO of A. T. Kearney Inc., walked into a conference room in the consulting firm's swank Chicago offices. Greeting him were lawyers for Electronic Data Systems Corp., Kearney's parent company. A week earlier, they had summoned Steingraber via e-mail to a meeting to discuss an employee's misconduct—but they didn't say who the worker was.

The mystery didn't last long. In a six-hour meeting, EDS lawyers accused Steingraber of bilking the company of \$100,000 in phony expenses while serving as Kearney's top manager, according to court records. Dumbstruck, the 64-year-old ex-consultant denied the charges. It hardly mattered: In a Sherman (Tex.) courthouse 950 miles from the tense Chicago conference room, EDS was suing him for fraud. The next day, he was fired from his post as chairman emeritus. Says Steingraber's lawyer, Lewis S. Rosenbloom: "It was an ambush."

Whether EDS was inventing an excuse to oust Steingraber, as he claims, or exposing a corrupt executive, as it insists, won't be known unless the fight goes to trial. But it's already providing evidence of a more serious rift: Nearly eight years after EDS and Kearney came together in a marriage of high-tech outsourcing and high-priced management consulting, the two are at war. A big falloff in consulting sales has forced EDS to cut consultants' pay and autonomy. Meantime, Kearney's old guard is convinced it can do a better job of running the show and has unsuccessfully tried to buy the firm back. "The relationship is gruesome," says a former Kearney exec.

For EDS, there's more at stake than the integrity of its expense forms—as well as big risks the lawsuit could backfire. Wielding inside knowledge, Stein-

graber is threatening to reveal details of EDS's accounting just as the Securities & Exchange Commission has upgraded a probe of the company's finances to a formal investigation. In an angry response filed in October, Steingraber accused EDS CEO Richard H. Brown of "an aggressive campaign to artificially inflate...revenues and profits," including booking revenue before it was billed and failing to disclose the risks of some contracts. Already battered by a series of missteps by Brown, including a huge earnings shortfall in September and a losing bet on EDS's own shares that wound up costing \$225 million, the stock has swooned 10% since the SEC announcement.

An EDS spokesman denied Steingraber's allegations as "false and malicious." Kearney CEO Dietmar Ostermann says that he's "the first to admit that we weren't quite successful" initially. But he says that "the relationship has never been better." As evidence, he notes that Kearney consultants collaborated on 42% of EDS's major sales pursuits in 2002, up from just 16% in 2000.

Things weren't always this antagonistic between EDS and Kearney. An offshoot of McKinsey & Co., Kearney opened its doors in Chicago in 1926 and had a sleepy reputation. Steingraber, a cerebral career consultant, rose to CEO of Kearney in 1983 and led an ambitious global expansion that helped its billings grow tenfold. The firm repaid him by endowing a chair in his name at the University of Chicago. When EDS came calling, he insisted that the company preserve Kearney's partnership-style culture and compensation system.

EDS initially agreed to do so. Its plan was to market its outsourcing services to Kearney's blue-chip clientele while fattening the bottom line with profits from lucrative consulting gigs. At first the deal was a huge success, with Kearney expanding revenues from \$320 million in 1995 to more than \$1 billion in 1998. But as many other companies have learned,

including Ernst & Young LLP and C Gemini since their union in 2000, melding the privileged culture of a partnership with the bottom-line mentality of a public company is hard to pull off.

EDS and Kearney soon clashed, according to interviews with more than a dozen current and former insiders. Kearney consultants chafed at sharing client with EDS and fretted about jeopardizing their status as independent advisers. EDS employees, meanwhile, were suspicious of the generous perks and arrogance of a unit that generates on



EDS CEO
DICK BROWN

at \$1 billion of EDS's \$21 billion in annual sales. "They were from Mars, we were from Venus," says Gary Nandes, EDS's former vice-chairman. When Brown arrived in late 1998, the consulting market was slowing, and EDS was in disarray. An aggressive turnaround artist who had revived H&R Block Inc. and Cable & Wireless, Brown attempted to slice \$1 billion from EDS's expenses. He suggested that Kearney relocate to EDS headquarters in Plano, Tex. Steingraber, a fixture in Chicago business and social circles, refused. Instead, he urged Brown to maintain the previous management's hands-off approach. Brown, who fancies himself a tough, old-school Welch-style manager, didn't back down. In November, 2000, he replaced Steingraber with Ostermann, a dark-horse candidate for the job who had been elevated to run Kearney's European operations just six months earlier. Ostermann moved fast on Brown's agenda, moving Kearney's headquarters to Plano and replacing key Steingraber lieutenants.

Kicked upstairs to a largely ceremonial role, Steingraber continued at Kearney.

EXODUS At Kearney, many top consultants have hired attorneys to negotiate their exits from the firm

Then early in 2002, while investigating allegations of misconduct by another employee, EDS claims it learned that Steingraber had been reimbursed for personal trips and dinners at his home, that he gave his son a company laptop to take with him to college, and that he billed Kearney for the cost of traveling to board meetings for Maytag Corp. and other companies where he was a director—expenses those companies already paid him for. In early 1995, Steingraber was also reimbursed \$37,428.66 for a sumptuous 50th birthday party for his wife, complete with a magician and surprise visits from her sisters, who were flown in from Germany.

In his legal response, Steingraber ac-

knowledges that he may have erred in reporting some expenses, but he says they were unintentional, totaling only \$6,600, a pittance for a CEO expected to entertain clients and employees around the world. The birthday party was attended by executives from scores of Kearney customers who would go on to ring up \$170 million in bookings, he claims, and the dinners were business functions of top Kearney executives and clients. He says EDS trumped up the charges to avoid having to pay out millions of dollars worth of restricted stock and options owed to him. Steingraber and his attorney, Rosenbloom, declined further comment on the dispute.

Steingraber goes even further in his response, accusing EDS of cooking the books. Discovery hasn't yet begun in the federal lawsuit, which is slated for trial in November if it can't be resolved through mediation. But damning details could emerge. *BusinessWeek* has learned that Kearney executives have raised concerns about overly aggressive revenue recognition by EDS under Brown. An EDS spokesman says the firm's accounting is proper and calls Steingraber a "disgruntled former employee."

Insiders say the litigation has increased the bad blood on both sides. In early January, *Consulting* magazine named Kearney the industry's most stressful place to work. More than a dozen top consultants have hired attorneys to negotiate their exits, and the firm is losing key people to rivals. "EDS has driven this great firm into the ground," laments Jess Scheer, who tracks the industry for Kennedy Information Inc.

Soon after the *Consulting* article appeared, scores of Kearney's 270 officers had an impromptu gripe session at their annual confab in Dallas. The next day, they took their concerns—from confusion over the firm's role within EDS to the disappearance of Christmas cards for clients—to Ostermann and Brown. The duo vowed to address the complaints by mid-February. But this rancorous relationship may be beyond repair.

By Andrew Park
in Plano, Tex.

MUD IS FLYING

Some of the dirty laundry being aired in EDS's battle with Steingraber, former CEO of its A.T. Kearney consulting arm:

CHARGES

INFLATING EXPENSES

Steingraber submitted inflated forms to EDS for company personal expenses, including a lavish 50th birthday party for his son.

DOUBLE-DIPPING

Steingraber got reimbursed for travel expenses that he also charging companies at. He was a member of EDS's board of directors.

STEINGRABER CHARGES

GAMING THE NUMBERS

CEO Dick Brown manipulated EDS's financial statements to boost sales and profits and didn't disclose contract risks to investors.

DOUBLE-CROSSING

EDS is trying to cheat him out of millions of dollars worth of stock and options that it promised when A.T. Kearney was acquired in 1995.



FORMER KEARNEY CEO
FRED STEINGRABER

RETAILING

DIESEL IS SMOKIN'

But can its provocative ads keep sales growth hot?

Picture this: an advertisement showing an edgy street scene of angry young demonstrators. The grainy black-and-white photo calls up images of anti-globalization clashes in capitals around the world. But instead of shouldering placards proclaiming "Death to the World Trade Organization," the protesters carry banners with whimsical slogans such as "Share Your Bathwater" and "Respect Your Mother." There's no corporate logo, just some fine print directing viewers to a Web site: Diesel.com.

Get it? If the answer is "no," you are probably not an ideal customer for Diesel's ultra-hip gear. And chances are you've overlooked a rare marketing success story in the fashion world. The 24-year-old Italian design house has succeeded by breaking almost every rule in the luxury-goods handbook—say, by running ads that use obese models to mock the glamorous images used to market haute couture—all in the name of selling faded \$189 jeans. "Their ads are like a secret code," says Wendy Liebmann, president of WSL Strategic Retail, a New York-based consultant. "They say: 'We have a different view of things, and we know people are sophisticated enough to get it.'"

No question, more and more global consumers grasp Diesel's cryptic message. Based in Molvena, a country town in Northern Italy, Diesel spends a modest \$40 million a year on marketing, mainly in targeted media such as arty catalogues and MTV. Yet trend watcher Zandl Group says it has built a strong brand in influential urban centers. And while twenty-somethings are the key audience for Diesel's ads, consider this contradiction: Even the doyen of haute couture, Karl Lagerfeld, is smitten with Diesel jeans.

Powered by the **ULTRA-HIP:** brand's iconic status A mockery and an aggressive re- of couture

tail expansion, Diesel's sales have been growing at double-digit rates, led by the U.S. The company estimates 2002 revenues at more than \$600 million. Privately held Diesel opened 41 new stores in 2002, from Miami to Berlin, bringing its world total to 203. Thirty more will open this year.

The man behind the Diesel fashion phenomenon is Renzo Rosso. Dressed in his trademark jeans and a Diesel pullover that resembles a gas station attendant's uniform, Rosso, 47, looks more like a middle-aged rocker than the head of a fashion empire. In 1975, just out of a textile manufacturing school in Padua,

Rosso teamed up with local manufacturers to form the Genius Group, responsible for several successful brands including Replay and Diesel. In 1985, Rosso bought out the Diesel name and went solo, forging the worn-denim look that is ubiquitous today. "I do much on instinct," says Rosso, an avid snowboarder and yoga practitioner who devours upwards of 150 magazines every month to keep his cool quotient up.

Staying on

the cutting edge of fashion isn't easy, especially in rural Molvena. **ROSSO:** Message From its unglamorous like code headquarters in a former clothing factory, Diesel churns out more than 1,500 new designs every month, about half of them in denim. pumps 7% of revenues into developing new fabrics and treatments to make stiff new denim look naturally worn soft. Diesel's designers scour the globe for inspiration, collecting bagloads of toys, vintage clothing, books, and music. Back home, a 30-strong multicultural team of young designers pore over the contents and weave their impressions into the next collection. This year's collection blends Olympics-inspired themes with Indian accents: A pair of men's pants sports racing stripes and patches in Hindu lettering.

Despite his success, Rosso knows he's walking a tightrope. The bigger Diesel gets, the bigger the danger of its becoming—gasp—mainstream. To increase control over merchandising and marketing, Rosso has slashed by nearly half the number of non-Diesel outlets for his products, such as department stores, while expanding his network of wholly owned stores. "I want to mask that we are multinational. Individuality is the sex appeal of the brand," he says. Rosso is seeking some extra growth from brightly colored children's collections called Diesel Kids, a youth brand pitched at skaters and snowboarders under the

name 55DSL, and a more experimental line using cutting-edge fabrics called DieselStyleLab. While it would be easy to ramp up volume, "I don't want to inflate sales," Rosso says. "Diesel is now a luxury brand." For Rosso, who has prospered by thumbing his nose at the fashion industry, Diesel's success is a bit, well, uncomfortable—like a stiff pair of brand-new jeans.

By Gail Edmondson
in Molvena, Italy



TURBOCHARGED: DIESEL SALES



HOMELAND SECURITY

SUMMIT & EXPOSITION

May 14, 15 & 16, 2003

Hyatt Crystal City, Arlington, VA

Interdependence: Assessing New Risks and Sharing the Costs

Featuring



Guest Speaker
The Honorable
Rudolph W. Giuliani

Terrorism and Interdependence: What can be done to minimize vulnerability?

The American economy is a highly integrated network of public and private organizations using technology to interact instantaneously to conduct business, run facilities, transport people and goods, and power cities. That interdependence, while offering the competitive advantages of speed, innovation, and efficiency, makes our system exposed to disruption by terrorists.

- What's the effect of this interdependence on our security?
- How can public and private organizations work together to preserve the values of openness and transparency that are America's strengths, while preventing their use as weapons by those who would bring our nation down?

The 2003 McGraw Hill Companies Homeland Security Summit & Exposition will address the specific issues most critical to the security of our system. The four major content areas to be discussed include:

- Track One** – Aviation & Transportation
- Track Two** – Business Strategy and Economics
- Track Three** – Architecture and Construction
- Track Four** – Energy and Natural Resources

Don't miss this unique event that will shape the direction of public and private homeland security initiatives. **Call or go online and register now!**

Call Ryan Leeds at (800) 240 7645 extension 7.
For information about conference tracks and sessions, visit:
www.mcgraw-hill.com/homeland

ASSOCIATE SPONSOR

Teradata
a division of **CONCR**

SUPPORTED BY



PRODUCED BY

AVIATION WEEK

BusinessWeek

McGraw Hill
CONSTRUCTION

platts

STANDARD
& POOR'S

JUST A MINUTE, MR. DONALDSON

TO: Senate Banking
Committee

FROM: Gary Weiss

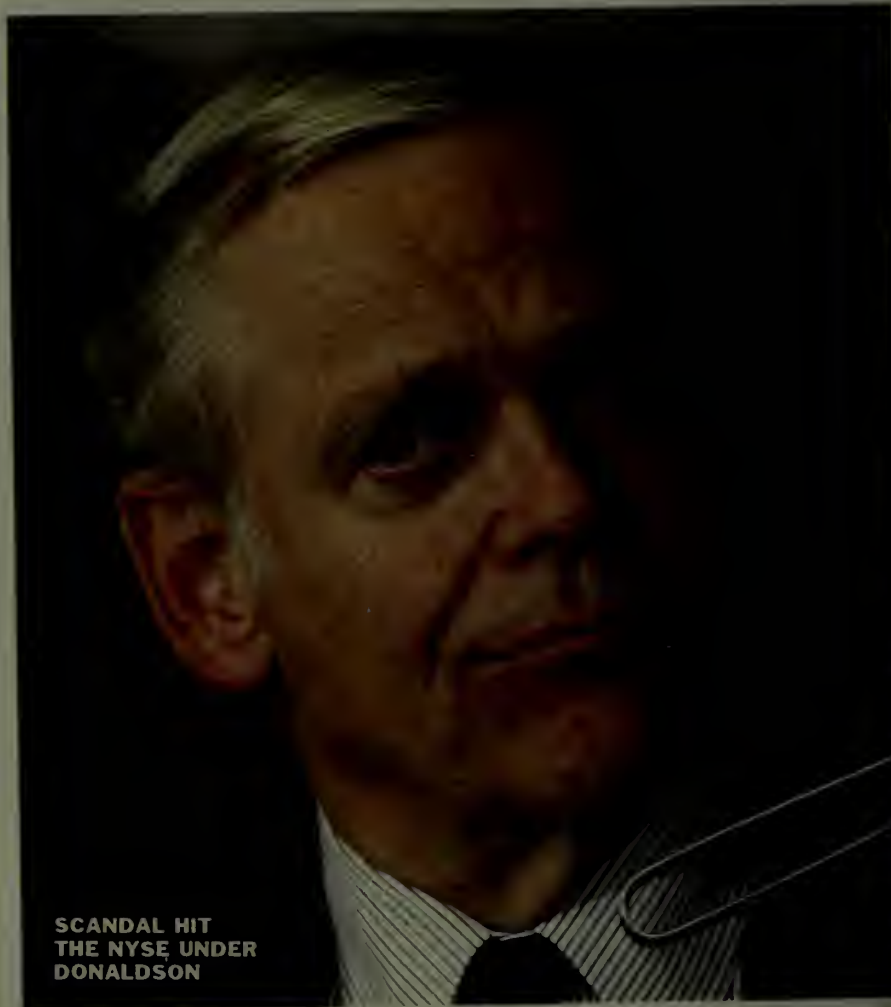
SUBJECT: William Donaldson,
SEC nominee

I am sure you are anxious to confirm Bill Donaldson as chairman of the Securities & Exchange Commission. The word out of Washington is that this old Bush family friend, fellow Yalie and Skull & Bones member, is going to glide smoothly to confirmation. His résumé is, of course, superb—Under Secretary of State, New York Stock Exchange chairman, co-founder of Donaldson, Lufkin & Jenrette Inc. His personality is as calm and serene as the Tidal Basin. And above all, he is not you-know-who. It doesn't do his prospects any harm at all that Harvey L. Pitt, arguably the least popular SEC chairman in modern times, has made good on his threat to stay on the job until his successor arrives.

But even though haste is understandable, your committee should take some time in its deliberations. Chew the fat with Donaldson a little. As a matter of fact, I have some questions that you might want to ask him at his confirmation hearings on Feb. 5. I tried to ask them myself but had no luck. The nominee was "traveling," according to an aide at Donaldson Enterprises, a private investment firm in New York where Donaldson hangs his hat nowadays, and he did not respond to my request for an interview. Maybe you'll do better:

When you were chairman of the NYSE, did you know about, sanction, or cover up illegal trading by floor brokers?

Unlike his predecessor, Bill Donaldson actually has a track record as



**SCANDAL HIT
THE NYSE UNDER
DONALDSON**

head of a regulatory body. And there is one aspect of his term as chairman of the Big Board, a post he held from 1991 to 1995, that your committee may want to explore. It has to do with an obscure breed of Wall Streeter called the floor broker. These people handle orders on the stock exchange floors from large customers, and are strictly prohibited from trading for their own profit because of their unique access to customer order-flow information. In 1998, a federal grand jury indicted 10 floor brokers for doing just that. Nine of them

pleaded guilty and were sentenced to prison terms.

The available evidence suggests pretty strongly that Donaldson either knew or should have known about the illegal trading—and failed to do anything to stop it. The NYSE was soundly thrashed in a 1999 settlement of an enforcement action that the SEC lodged against it. The SEC found that the NYSE had turned its back on a widespread problem. Neither Donaldson nor any other NYSE official was named, but the SEC found that

the NYSE—"without reasonable justification or excuse"—failed to supervise its floor brokers adequately during the entire time that Donaldson was chairman, and for two years afterwards. The NYSE neither admitted nor denied the charges.

Be sure to get ahold of the internal NYSE documents that were produced as evidence in legal proceedings involving a former floor broker named John D'Alessio. Read them carefully. You might want to ask Donaldson to explain a memorandum that was sent to him dated Jan. 16, 1992, providing the "highlights" of the NYSE's Market Performance Committee, including an ad hoc committee on "trading for eighths"—NYSE-speak for floor brokers illegally trading for their own profit. The ad hoc committee found that existing trading rules were adequate, and that the issue should not be put in writing to avoid "unwarranted media attention." Sure enough, not a word found its way to the public or the SEC at the time.

Did Donaldson agree with that memo's view of the public's right to know? And did he know about or sanction efforts to hide the issue from the SEC? According to notes produced in a D'Alessio lawsuit, one high-level NYSE official instructed another: "DO NOT DISCUSS WITH SEC." There's no evidence Donaldson saw those notes. Even so, D'Alessio's attorney, Dominic Amorosa, alleged in a December, 2002, letter to the SEC that Donaldson "was deeply involved in the wrongdoing that is at the root" of D'Alessio's appeal of NYSE charges related to the trading scandal. Is that legal grandstanding—or is there a germ of truth to the charge?

Why did you try to charge the Henry Ford II estate \$1 million a year for acting as part-time trustee?

Executive compensation is a hot issue. So is the attitude of the next SEC chairman toward individual investors—the proverbial "widows and orphans." Donaldson has a reputation for not being overly solicitous in that regard. Is that a bump up? You might find a clue in a long-forgotten dispute involving Donaldson, a fortune, and a widow.

In 1988, Donaldson became trustee of the \$350 million estate of Henry Ford II. Trustees' salaries are not set by law, so Donaldson came up with a nice round number—a million dollars a year. The primary beneficiary, Kathleen DuRoss Ford, asked a judge in Palm Beach, Fla., to bar Donaldson from collecting. Mrs. Ford's lawyer angrily asserted at the time that Donaldson was trying to "extort from the trust" a huge sum of money for doing "no work." Donaldson just as angrily replied he would indeed have to do work, and that the money was justified. The case dragged on for some months, ending in a settlement in which Donaldson would earn

And don't forget another position he took as NYSE chairman:

Do you still believe that accounting rules for U.S.-listed foreign companies should be softened?

Likewise, be sure to have Donaldson walk you through his 14 months in 2000 and 2001 at Aetna. By all accounts, his record showed a callous disregard of investor interests. Maybe that's a mistaken impression—let's hear from him on that. The company ran deep into red ink on his watch, rejected a handsome merger offer just before shares of Aetna stock tanked, and is the target of shareholder lawsuits that he and the company are fighting.

I also hope you'll ask him if he

To: Messrs. Donaldson, Grasso, Domijan, Horowitz, Kvalwasser and Solodar, and Mrs. Kinney

Trading for Eighths

Arthur Cashin and Charlie Bocklet, Co-Chairmen of the Ad Hoc Committee on Trading for Eighths presented the committee's report. In sum, the committee felt that existing Exchange rules adequately address each of the issues relating to this practice, which the committee had reviewed. They suggested that consideration be given to holding information sessions on broker's responsibilities in engaging in this practice. It was felt that this would be preferable to distributing an information memo, since the latter could result in unwarranted media attention. The ad hoc committee recommended that the committee consider doing so.

ON HIS WATCH

An internal memo that later surfaced in a lawsuit shows the NYSE tried to hide controversy about brokers' practices

\$1 million the first year, \$550,000 the next two, and then resign.

A million dollars for a part-time job? That's as much as Donaldson was paid when he was chairman of Aetna Inc. (not counting the controversial \$6 million bonus he was also paid by the insurer). Why did he charge the trust so much? What does this say about his attitude toward executive compensation?

Other questions come easily to mind. Obvious things, such as one of his more interesting recent public comments:

Why do you believe that Regulation Fair Disclosure is "crazy"?

Advocates of this rule believe that by requiring that market-sensitive info is made available to everyone at the same time, the public benefits. Does he have a problem with that?

was aware that another company in which he was a board member, EasyLink Services Corp., was paying for ostensibly independent analyst research (BW—Jan. 13). Does he think that kind of thing is a good idea? He was on EasyLink's compensation committee when it voted to forgive a \$200,000 loan to the chief executive even though the company was mired in red ink. Why did he do that?

I hope Donaldson has good answers for all of these questions. Investors are in no mood for another Harvey Pitt, and the public needs somebody who can restore confidence to the markets. But if Donaldson doesn't give satisfactory answers, your duty is clear. Forget about his résumé, the public's fatigue with bad news—and even the ever-lingering Pitt. Don't confirm his nomination.

Weiss covered the NYSE floor brokers scandal.



CAPLAN'S CHALLENGES

*What the new CEO must do to keep E*Trade on track*

► **BUILD UP** its credit-card business and its financial-advice service

► **REVAMP** marketing to emphasize specific products rather than the E*Trade brand

► **IMPROVE** brokerage results by adding technology and cutting unprofitable accounts

► **REPAIR** relations with investors by keeping them better informed and making financial reporting more simple

Data: BusinessWeek

BROKERAGES

DID E*TRADE JUST TRADE UP?

A decidedly unflashy CEO may be just what it needs

How well will E*Trade do without star power? That's what analysts and investors have been asking since Chief Executive Christos M. Cotsakos stepped down on Jan. 24. The one-time college actor built the online brokerage and bank with flashy ads, and he once announced that the company was on a *jihad* against your father's way of managing investments. His replacement: Mitchel H. Caplan, whose background as a consensus-building lawyer pales against that of Cotsakos, who won a Bronze Star in Vietnam and took his executive team race-car driving.

But the switch isn't as abrupt as it looks. Caplan has been in the driver's seat at E*Trade Group Inc. for almost a year. Cotsakos picked him as chief operating officer and president in April and pushed him to become the company's front man—granting press interviews, speaking to investors, and should-

dering the day-to-day management. "He's the one who understands banking and consumer lending and has made the decisions over the past year," says Richard H. Repetto, an analyst at Putnam Lovell NBF Securities Inc. "It's all about execution now. It isn't about just building the brand."

E*Trade needs lots of execution. With the market in the dumps, retail trading is anemic, and the firm has been forced to cut costs and raise fees. Banking competition is cutthroat. And the booming mortgage business—especially in refinancings—looks likely to plummet when rates finally start climbing. The firm lost \$186.4 million last year, although it did earn a profit from ongoing operations of \$161 million, on revenue of \$1.27 billion. The stock rose 2.2%, to \$4.59, in the first four trading days after the management shuffle, but that's still off its 52-week high of \$10.62 in March.

Count on Caplan sticking with Cotsakos' diversification strategy. To step up E*Trade's business beyond retail brokerage, Caplan bought consumer-lender firm Ganis Credit Corp. and institutional trader Engelman Securities Inc. last year. He launched an E*Trade credit card and will bundle it for some customers with other banking and credit products. But he has put insurance and tax-preparation offerings on the back burner. "I don't want to add new products for the sake of new products," says Caplan, 45, who joined E*Trade when it acquired his online bank, Banc Financial Corp., in 2000. "We'll fine-tune and integrate the products we have slowly."

And don't wait for E*Trade to sponsor another Super Bowl halftime show or a Rolling Stones tour. Caplan is likely shy away from brand-building in favor of targeted marketing that pushes specific services. A foretaste: the October launch of E*Trade's "Power of the Deal," which offers traders nine-second executions and trades for \$9.99. The promotion helped raise trading volume in the fourth quarter by 11%.

Analysts expect the new strategy to show results this year. They estimate that E*Trade will post earnings from ongoing operations of \$162 million to \$198 million, driven largely by its banking and lending businesses. "This is not just a story of waiting for stock-trading volumes to pick up," says Edward J. Maran, associate portfolio manager at Thornburg Investment Management Inc., a large E*Trade shareholder. Ad E*Trade Director William A. Porter says, "It's not like we've brought in a kid with no experience" to run the company.

Is Caplan's goal merely to tidy up the outfit for a sale? In the past, E*Trade talked to American Express about a deal, and Goldman Sachs and Charles Schwab have been mentioned as potential suitors. Says one institutional holder: "They're a possible takeover candidate." Caplan will say only: "I am singularly focused on building the business for the long term."

After a public-relations debacle last year, when Cotsakos was famously shamed into returning \$20 million of his \$80 million pay package, E*Trade's board is taking no chances with Caplan. Despite the promotion, his pay remains the same: a \$650,000 salary plus a bonus that's capped at three times that figure. If Caplan can keep E*Trade on track, he'll certainly be worth every penny.

By Louise Lee in San Mateo, Calif.

WHY IT'S OPEN SEASON ON MUTUAL FUNDS

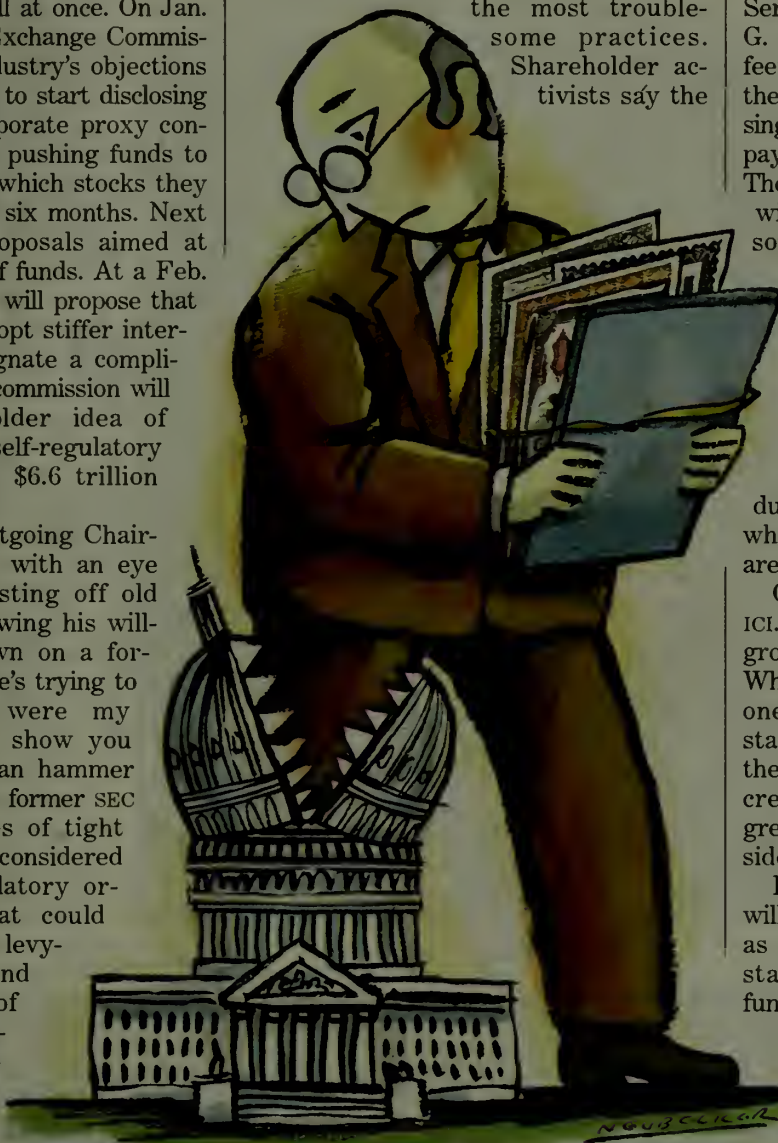
The SEC is demanding more disclosure—and oversight

last year's sordid parade of financial scandals, the one player missing was the mutual-fund industry. Comed with Wall Street, funds have a clean, investor-friendly reputation. But suddenly, the funds have become a target for regulators and lawmakers. Shell-shocked funds and their lobbying arm, the Investment Company Institute (ICI), are wondering what to do.

The answer: a lot all at once. On Jan. 1, the Securities & Exchange Commission overruled the industry's objections and it ordered funds to start disclosing fees they vote in corporate proxy contests. The SEC is also pushing funds to report every quarter which stocks they own, instead of every six months. Next month, two new SEC proposals aimed at strengthening oversight of funds. At a Feb. 11 meeting, the agency will propose that every mutual fund adopt stiffer internal controls and designate a compliance officer. And the commission will announce an even bolder idea of creating a self-regulatory body to oversee the \$6.6 trillion mutual fund industry.

SEC sources say outgoing Chairman Harvey L. Pitt, with an eye on his legacy, is dusting off old ideas in hopes of showing his willingness to crack down on a former client, the ICI. "He's trying to look good, too. Let me show you how many times I can hammer it," according to a former SEC official. And in times of tight budgets, the SEC has considered creating a self-regulatory organization (SRO) that could pay for itself by levying fees on funds and relieve the agency of the burden of examining investment companies. Indeed, SEC officials argue that funds need closer

supervision than the overburdened agency can provide. "We can't be everywhere at all times," says Paul F. Royce, director of the SEC's Investment Management Div. "We're trying to avoid problems that we've seen in other areas." Moving routine examinations of funds to a third party—whether it's an SRO or, as the SEC is also considering, auditors or insurers—would free the SEC to focus its limited resources on the most troublesome practices. Shareholder activists say the



call to beef up controls is long overdue. "This is directed at small fund complexes, where there's greater potential for abuse," says Mercer Bullard, president of shareholder advocacy group Fund Democracy.

That's fine with most big funds that already have compliance systems. But they're balking at a new layer of regulation. "Direct government regulation of mutual funds by the SEC is the superior model," says ICI spokesman Chris Wloszczyna. And SROs have hardly covered themselves with glory. Witness the accounting industry's failed disciplinary system for auditors or the National Association of Securities Dealers' slow response to analyst conflicts.

With Pitt pushing the notion of a new regulator, lobbyists figure the idea will vanish when he does, in February. But that won't cure the ICI's longer-term problems on Capitol Hill. House Financial Services Committee Chairman Michael G. Oxley (R-Ohio) will hold the funds' feet to the fire in hearings he plans into the fees they charge investors. He's also singled out funds for hiding their costs by paying inflated commissions to brokers. The funds are supposed to buy research with those "soft dollars." But they're sometimes diverted to buy software, computers, and even cars for managers. Such conflicts, says Oxley, "may be a contributing factor to poor mutual-fund performance—well below market averages." John C. Bogle, founder of giant Vanguard Group Inc., agrees with him. Closer scrutiny of fund fees is "long overdue," he says. "The economies of scale, which are staggering in this industry, aren't being shared with fund owners."

Oxley also has a personal gripe with ICI. Lobbyists say he is incensed by the group's close ties with Hill Democrats. Whenever a fund issue comes up, says one, "the ICI runs to Democratic staffers" on committees that oversaw the industry before Oxley's panel was created in 2001. The ICI says it has great relations with lawmakers on both sides of the aisle.

Fund companies are hoping ICI will work these connections harder. But as long as investors' 401(k) balances stay in the dumps, the scrutiny of funds—and the barrage of regulation—aren't likely to end. Until then, the funds need every friend they can find.

By Amy Borrus and Mike McNamee in Washington

Harvey Pitt wants to burnish his record by cracking down on a former client with weak ties to Hill Republicans

FRANCHISES

NAME YOUR PRICE, SPORT

Suddenly, there's a glut of big-league teams on the market

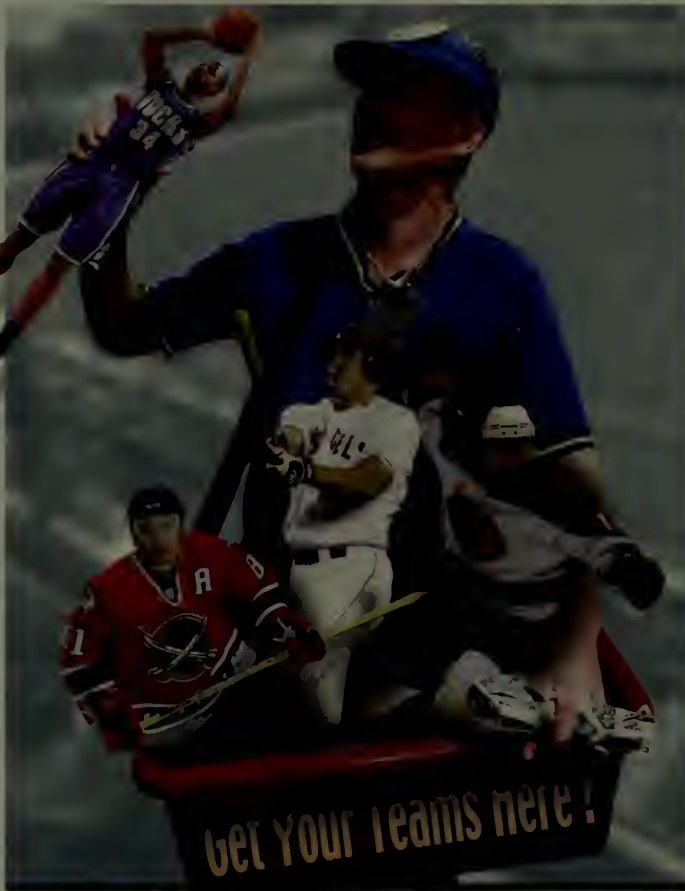
To win last year's World Series, the Anaheim Angels relied on gritty pitching, defensive wizardry—and the Rally Monkey. Nearly every time the chimp, whose last big act was the movie *Ace Ventura: Pet Detective*, appeared on the electronic scoreboard, the Angels scored late-inning runs. These days it's Walt Disney Co., which owns the Angels, that could use a little monkey magic. Three years after putting the team on the market, Disney is still waiting for its first serious offer.

Disney isn't alone. Fast fleeting are the days when major-league franchise owners could cash out after years of losing millions and still realize substantial rewards. As many as 20 teams from the big four sports are now on the block, creating the biggest glut in decades.

Why? In the old days, fat cats used to plunk down bags of money for a chance to pal around with a Gretzky or a Jordan, and companies saw synergies everywhere. Now, Wall Street's dog days have turned billionaires into mere millionaires, and corporations are selling noncore businesses. And money from TV contracts, after climbing for years, is looking less robust. "Sports teams are today's Internet stocks," says Peter V. Ueberroth. The former baseball commissioner says he's interested in buying the Angels, "but I'm not going to get into an auction."

Legendary clubs like Boston's Red Sox and Celtics, both sold in the past year, can still command top dollar. But for teams without marquee names, reality is setting in. Disney, which lost an estimated \$14 million on the Angels while winning the Series, is likely to get closer to \$225 million than the \$300 million it had sought two years

back, say investment bankers. One reason is that potential buyers can also shop for the Minnesota Twins, Montreal Expos, Atlanta Braves, or even the Los Angeles Dodgers. On Jan. 21, Rupert Murdoch, who has a history of backing losing investments if they help his News Corp. empire, hired investment bankers Allen & Co. to sell the Dodgers.



TEAM*	OWNER	ASKING PRICE (IN MILLIONS)
LOS ANGELES DODGERS	News Corp.	\$400
ANAHEIM ANGELS	Walt Disney	300
DALLAS STARS	Tom Hicks	260
MILWAUKEE BUCKS	Senator Herbert Kohl	150**
BUFFALO SABRES	NHL***	70
ATLANTA THRASHERS	AOL Time Warner	N/A

*A sampling of clubs on the block

**Kohl wants to sell a percentage of team

***Last year, the league took over from bankrupt Adelphia Communications

Data: Investment bankers, *BusinessWeek* estimates

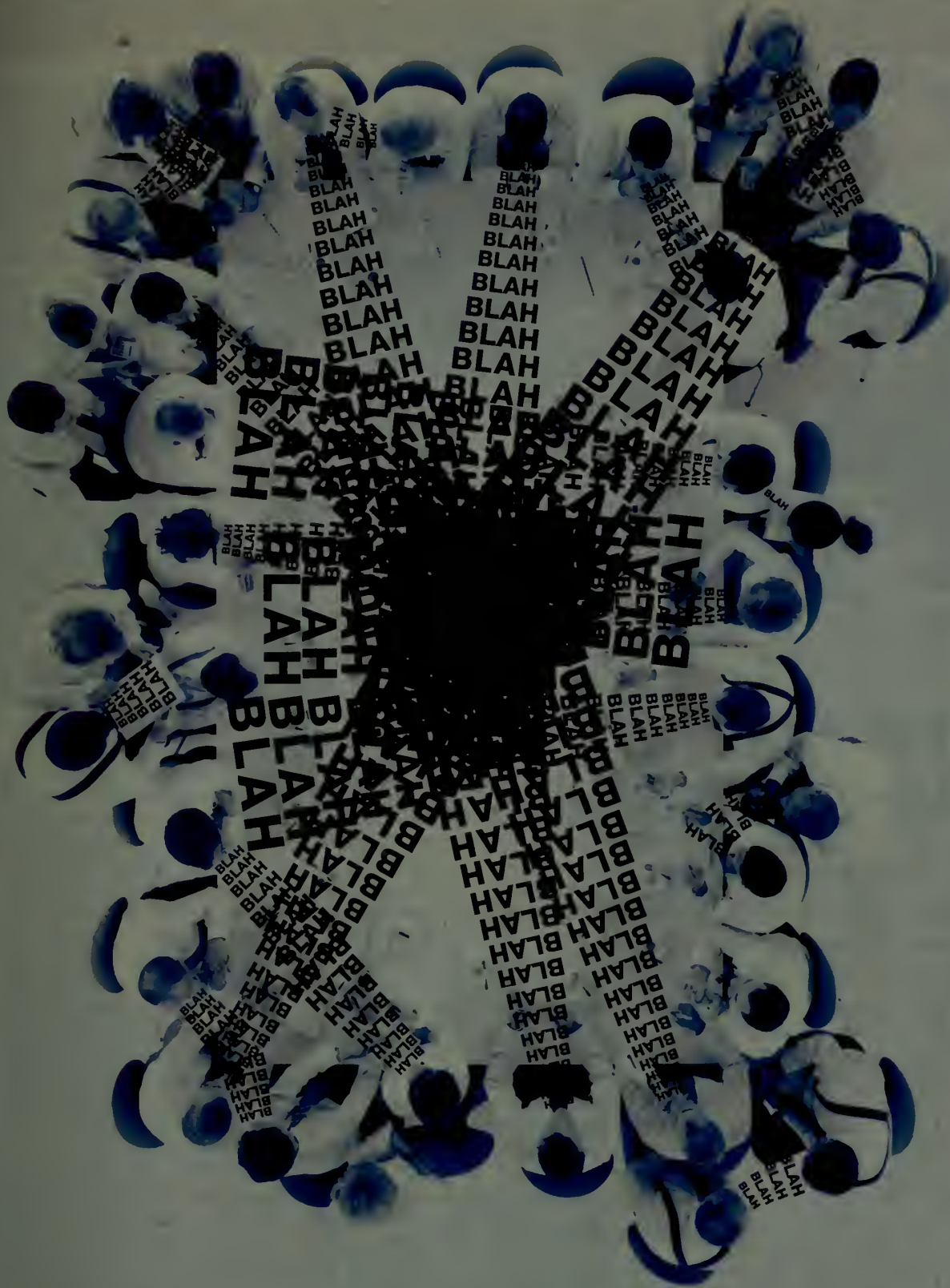
The situation is worse in pro hockey where investment bankers say as many as 10 of the NHL's 30 teams are up for sale. Without salary caps, player costs have skyrocketed, sending the Buffalo Sabres and Ottawa Senators to bankruptcy court. The hockey glut includes Disney's Mighty Ducks of Anaheim, being peddled by Lehman Brothers, and the Atlanta Thrashers, one of the teams AOL Time Warner Inc. has indicated it would be willing to unload as it struggles to slash debt.

The problem is, there don't seem to be many buyers. Owners of the NFL's Cleveland Cavaliers and Orlando Magic took their teams off the market last year when offers were too low. Even a team in the NFL, the most profitable league, can go begging. Minnesota owner Billy Joe "Red" McCombs, who has been unable to get the state to help pay for a new stadium, said to have hired J.P. Morgan Securities to shop the Vikings but has found no offers worth pursuing. McCombs did not return calls. "Owners out there used to look at sports teams like art that appreciated over time," says Jeffrey S. Phillips, of investment banker Houlihan, Lokey, Howard & Zukin. "Now they want to see the financials."

That has already driven down multiples. Carl H. Lindbergh paid \$67 million in 1999 for Marge Schott's controlling stake in the Cincinnati Reds—less than half the team's revenues, says investment banker John Moag of Moag & Co. Prices are now closer to twice revenues and for hockey, probably lower, he says. "We used to get seven or eight [buyers]," adds Moag. "Now we're getting two or three."

That's hardly good news for Rupert Murdoch. He bought the Dodgers in 1997 for a then-record \$310 million, lost nearly \$200 million by hiring high-price players who didn't perform, and probably won't get more than \$400 million—a \$100 million loss. In need of cash to buy the DirecTV satellite service, he may have to throw in his local Fox Sports cable outlet to close a deal. Surely, Murdoch can't be forgiven for thinking that nearly 45 years after Da Bums moved to L.A. from Brooklyn, they were still living up to their nickname.

By Ronald Givens
in Los Angeles



Less talk.

There will always be more people who talk about doing something than who actually do it. Our reputation is built on getting things done. **Make it happen.**

 **RBS**
The Royal Bank of Scotland Group



HOLLYWOOD

IS STEVE ABOUT TO MOVE HIS CHEESE?

Pixar's chief could shop for a new deal soon—leaving Disney minus an asset it sorely needs

What's the best way to tick off Walt Disney Co.? Make an animated movie with a mouse as the lead character. That's exactly what Disney's partner, Pixar Animated Studios, is doing. The movie, which doesn't yet have a name, is about a little critter who lives in an upscale restaurant. And, at least for now, Disney has no rights to it at all.

Pixar's planned mouse tale is the latest jab in a year-long sparring match between Pixar CEO Steven P. Jobs, also head of Apple Computer Inc., and Disney CEO Michael D. Eisner. The fight is over—what else?—money. Jobs wants more of it, especially after Pixar's run of blockbuster animated films for Disney, including *Toy Story*, *A Bug's Life*, and *Monsters Inc.* Without a new and better deal, Jobs could take his hit-making animators to another studio in 2006.

The timing couldn't be worse for Eisner, who is under pressure to rev up Disney's sputtering empire. Pixar lets Disney leverage characters such as Buzz Lightyear (*Toy Story*) and Flik (*A Bug's Life*) by using them in theme parks or selling them as toys. Disney hasn't had

Pixar-level megahits since its *Beauty and the Beast* and *Lion King* days. Can you name any characters from *Atlantis: The Lost Empire* or *Treasure Planet*?

Disney's 12-year-old deal with Pixar requires Jobs's outfit to deliver three more films, taking it to 2005. But Jobs has the right to start shopping for a new deal after he delivers his next film, *Finding Nemo*, an underwater comedy, in mid-February. Already, honchos from Warner Bros. and Sony Pictures Entertainment have made the trek to Pixar's Emeryville (Calif.) digs to schmooze

THE PIXAR ADVANTAGE

Its animated films, co-financed and distributed by Disney, grab more moviegoers than Disney's do

PIXAR	
U.S. BOX OFFICE RETURNS (IN MILLIONS)	
A BUG'S LIFE (1998)	\$163
TOY STORY 2 (1999)	246
MONSTERS INC. (2001)	256
DISNEY	
ATLANTIS: THE LOST EMPIRE (2001)	\$84
LILO & STITCH (2002)	146
TREASURE PLANET (2002)	36

Data: Internet Movie Database (IMDB)

EISNER VS. JOBS Pixar may want to fund its films—and keep the profit

Jobs and John Lasseter, his top creative exec. Says Sony Vice-Chairman Yair Landau: "Sony would clearly like to be in business with Pixar."

That's why Disney may have to keep Jobs happy. Since 1999, Pixar has contributed \$682 million in operating income, or 35% of Disney's studio profits, says a Merrill Lynch & Co. report. Under its current deal, Pixar and Disney evenly share the \$100 million or more costs to make most of Pixar's films. Disney takes 12% of a film's gross to contribute, and the companies split the rest.

Disney officials have privately dismissed Jobs's meetings with other studios as typical Hollywood posturing. But Eisner's chairman seems intent, at least, cutting a deal like the one filmmaker George W. Lucas has with Twentieth Century Fox. Lucas pays the entire cost to make *Star Wars* films, and Fox gets only a 6% distribution fee. With \$80 million in cash, Pixar could easily finance its own works, though it is riskier. Pixar made profits of \$235 million from its 2001 hit *Monsters Inc.* but might have posted more than \$500 million if it hadn't had a share, says Jeffrey B. Logsdon, managing director of Gerard Klauer Mattison.

In a sign of diplomacy, Eisner has said a Lucas-style deal is "possible." Still, Disney and Pixar have been stubborn in previous fights. In 2001, the two squared off over whether a third *Toy Story* installment would count against the five films required in Pixar's current contract, as Jobs wanted. Disney claimed that as a sequel it didn't count, effectively delaying the end of Pixar's contract. The film never got made. The companies declined comment for this story.

Eisner fired a salvo two years back when, during congressional testimony about Internet piracy, he singled out Apple's "Rip, Mix, Burn" ad campaign, infuriating Jobs. Eisner has since apologized, but Jobs now deals mostly with Disney's more easygoing studio chief Richard W. Cook. Still, the studios continue to maneuver. To keep Lasseter on board, Jobs extended his contract and gave him a \$1.25 million bonus. Disney signed *Shrek* producer John H. Williams to make three computer-generated films.

Some in Hollywood figure Pixar would dump Disney. "Each side has something to offer to the other," says DreamWorks SKG's Jeffrey Katzenberg. That makes sense. But when Hollywood and big egos are involved, it's not that simple.

By Ronald Grover in Los Angeles with Peter Burrows in San Mateo, Calif.

COMMENTARY

By Catherine Arnst

MEDICINE: A COLD LOOK AT THE COST OF SAVING LIVES

How much is a year of life worth? This may seem like a question that should never be asked—and in the U.S., it rarely is. But as ever more expensive medical treatments and tests are introduced, our society will have to face this issue head on. “In the current health-care environment, ignoring cost is no longer tenable,” says Dr. David Atkins, science adviser to the U.S. Preventive Services Task Force, a panel of medical experts.

A study in *The Journal of the American Medical Association* sheds light on one important area. Doctors from Johns Hopkins University School of Medicine analyzed the cost-effectiveness of a sophisticated lung cancer test called spiral computed tomography (CT) scanning. The conclusion: It may be more accurate than other options, but for society, it's not worth the very high price.

That same verdict might easily be applied to any number of new medical procedures. Ductal lavage, a test that analyzes breast cells to assess a woman's risk of developing breast cancer, can cost \$700 and is a rough gauge at best; Gleevec, a new leukemia drug, costs \$12,000 per year but does not cure the disease; and the Abiomed artificial heart, in tests for patients suffering end-stage heart failure, is expected to cost \$100,000 for the device alone.

Spiral CT scans are at the nexus of the cost-benefit conundrum. The technology spirals low-dose X-rays around the body as a patient is transported through a metal tube. Studies have found that CT scans are vastly better than conventional X-rays at detecting tumors when they are small and easy to treat. But the scans also produce far more false-positive results, leading to many unnecessary biopsies. Plus, a CT scan costs about \$500 vs. \$50 for an X-ray.

Is it worth it? By one measure, yes. Using a computer model, the



Johns Hopkins team estimated that if 100,000 current or former heavy smokers were scanned once a year, starting at age 60, there would be 553 fewer lung cancer deaths over 20 years—a 13% reduction. But there also would be 1,186 unnecessary biopsies because of false-positive readings. Add it all up, and the screening program would cost \$116,300 per year of life saved for current smokers and \$2.3 million per year for former smokers. The researchers concluded this was too high a price.

That may sound unfair to lung cancer patients. After all, the U.S. spends billions on screening for breast and prostate cancer even though there is no proven survival benefit for the two most widely used

tests. And lung cancer kills more people each year than breast and prostate cancer combined.

But lung cancer summons considerations that complicate the equation. Because 90% of its victims are current or former smokers, they face far more health problems than the general public. “I’d hate to see an attitude develop that smokers deserve what they get,” cautions Dr. Michael A. Grodin, director of medical ethics at Boston University. Yet there’s no denying that smokers who survive lung cancer are at high risk of death from other tobacco-related diseases. And lung cancer, although it strikes 170,000 people annually in the U.S., doesn’t use up

many health-care dollars because some 80% of its victims die within a year or two of diagnosis. CT scans that help keep some of these patients alive would perform an enormous medical service, but the cost may not be tolerable.

So far, no medical body recommends routine lung scans, and most insurance plans won’t cover them. As more patients pay for the scans on their own, however, pressure will mount on insurers to pick up the tab. That’s the history of prostate and breast screening. Both tests are widely used—and covered—though the jury is still out on the benefits.

The National Cancer Institute hopes to avoid the same ad hoc adoption of CT scans. It’s conducting a large clinical trial to determine if the test improves the chances for surviving lung cancer, but no conclusion will be reached for seven years. Doctors should urge patients who request a CT scan to enter the trial.

In the meantime, Washington must start debating just how the nation should spend its health-care dollars—because we truly cannot afford to duck this issue any longer.

Arnst covers science and medicine.

**CT scans can curb
lung cancer deaths.
The price?
As high as \$2.3 million
per year of life saved**

INVESTIGATIONS

TECH'S KICKBACK CULTURE

Inside the sweet deals that grease the industry

BY LINDA HIMELSTEIN
AND BEN ELGIN

It was showdown time in the Rockies. On the morning of Mar. 24, 2000, about two dozen engineers at Qwest Communications International Inc. crammed into a conference room high above the Denver skyline for a meeting with the company's president at the time, Afshin Mohebbi. In a three-hour presentation, neatly outlined in a 20-slide PowerPoint presentation, the engineers complained that morale was sagging. They attributed much of the unrest to one festering problem: a growing culture of palm-greasing at Qwest. If top management didn't remedy the problem, the engineers would walk.

The engineers said Qwest executives were receiving lucrative stock offers from companies angling for business. And this could entice them to steer big contracts to companies in which they held investments. According to the slides obtained by *BusinessWeek* and interviews with six of the engineers, Qwest all too often was buying inferior gear—while execs' personal stock holdings shot through the roof. "Decisions were not

based on what equipment performed the best or what would fit in best," says Kelly Marshall, a former manager of the lab that tested Internet gear for Qwest. "They were based on who gave stock options to people making the decisions."

Mohebbi heard the engineers out, and they left the meeting with hopes that change was on the way. Little did they know they had stumbled onto a practice that has raged throughout high tech. The booming stock market had minted a new currency: a plethora of preferred and friends-and-family shares from hundreds of high-tech initial public offerings. Much of the industry was lavishing this new payola on the top brass of customers, partners, and suppliers alike—dividing the loyalties of execs between their companies and their personal portfolios. "It's an ethical nightmare," says retired executive Richard Liebhaver, who resigned from Qwest's board in January, 2000.

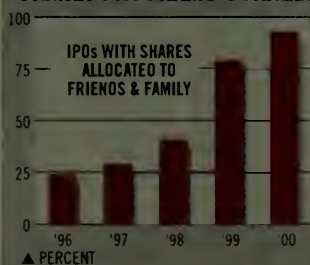
High-profile cases of IPO payola already have rocked the investment-banking world. During the boom, Wall Street firms allocated coveted IPO shares to the private accounts of CEOs such as Ford Motor Co.'s William

Clay Ford and WorldCom Inc.'s Bernard J. Ebbers, allegedly to win future banking business. On Dec. 20, regulators negotiated a \$1.4 billion settlement with 10 investment banks that, among other requirements, barred such practices.

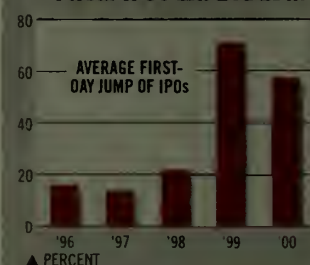
But a more pervasive form of palm-greasing has plagued the high-tech industry. A four-month *BusinessWeek* investigation has revealed hundreds of managers who were granted exclusive stock in companies with which their employers did business. Interviews with 135 current and former executives from 87 companies, including Cisco Systems and EMC, reveal an industrywide fever. The influence-peddling spread beyond customers and suppliers—even reaching so-called independent research houses that write industry reports and market forecasts.

Did the market crash put the kibosh on these excesses? Not entirely. Even with fresh IPO currency in short supply, the culture of backroom back-scratching hasn't disappeared. "Companies are continuing to be approached for stock analysts and others who wield influence," says David Helfrich, a partner at ComVentures, a venture-capital firm in Silicon Valley. Helfrich says two of his portfolio companies, which he won't identify, relented to pressure and granted shares to market researchers in

AS USE OF FRIENDS AND FAMILY PROGRAMS SOARED...



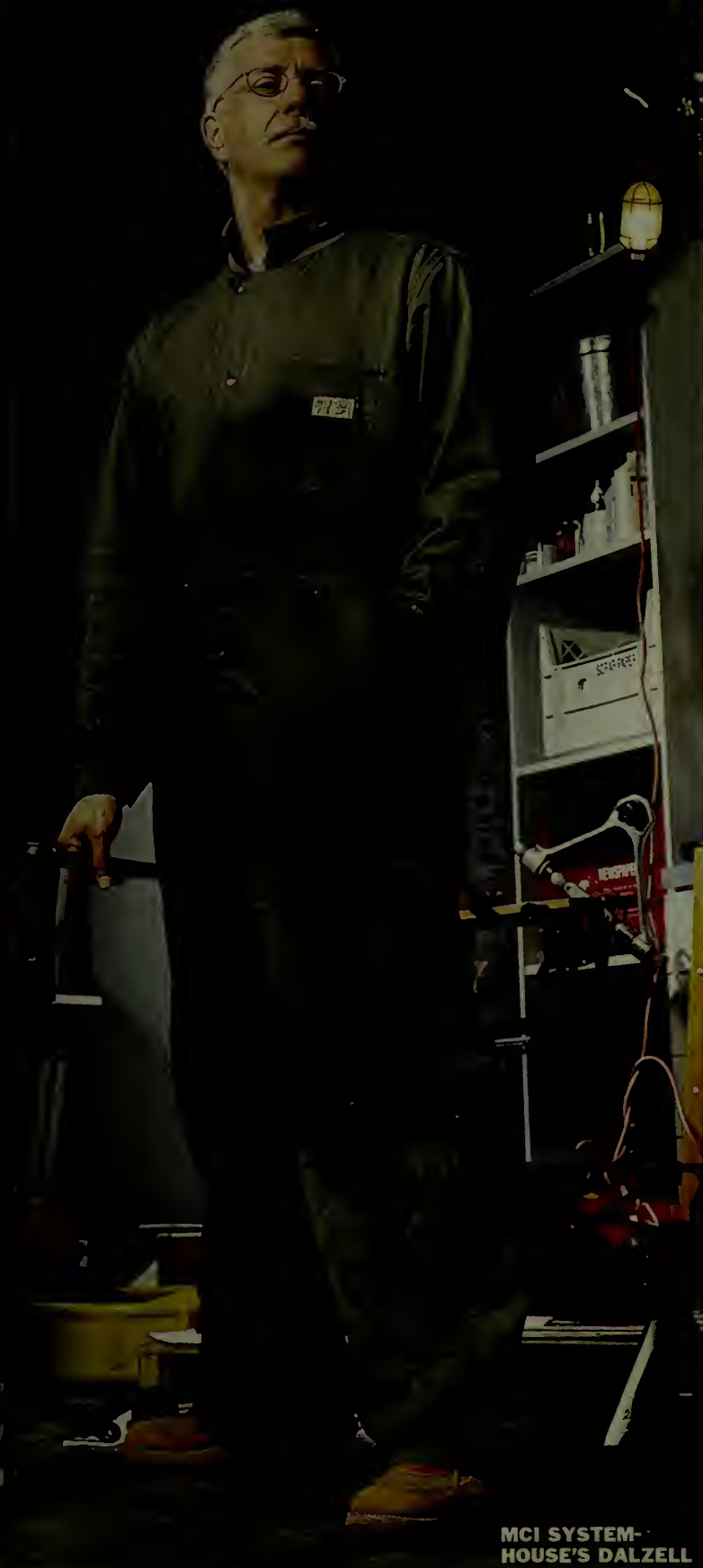
...FIRST-DAY RETURNS FROM IPOs EXPLODED...



...AND LOWBALL IPO PRICING BROUGHT IN LESS CAPITAL



WHAT UNDERPRICING MAY HAVE COST COMPANIES
Data: New York University, University of Florida



MCI SYSTEM-
HOUSE'S DALZELL

REWARDING A CUSTOMER

Executives rarely take a pass on a chance to buy friends-and-family shares because they can be flipped on the first day of an IPO. Here's how one manager made out:

1 Days before Commerce One went public on July 1, 1999, the e-biz software maker offered Colin Dalzell, a manager at systems integrator MCI Systemhouse, a chance to buy friends-and-family shares. MCI Systemhouse used Commerce One's software to put together systems for clients.

2 Dalzell bought 1,000 shares for \$21,000. He flipped the stock after Commerce One's first day of trading, and used his \$40,000 profit to pay for a 1965 Cobra racing-car kit.

3 Dalzell says the money wasn't enough to sway him. And his company would have worked with Commerce One regardless. But he concedes that if it had been more money, a conflict could have arisen.

pre-IPO shares in a customer and business partner, StorageNetworks Inc., they started steering contracts to the upstart—including rich deals that some former EMC execs think should have gone to their own company. These contracts brightened the new company's prospects and boosted its stock. While this may have hurt EMC and its stockholders, it produced a windfall of \$2 million for at least one of the EMC executives who got those cheap shares.

Just as intoxicating as early-stage shares are offers for so-called "friends-and-family" IPO stock. Such friends-and-family plans allow companies going public to distribute about 5% of their offering to whomever they choose. Those invited get to buy shares at the IPO price—a perk not available to the average investor. At the height of the bubble, IPOs were jumping an average of 65% in their first day of trading, virtually ensuring a large payday. "The money to be made is so significant that it starts to look like outright bribery," says Craig W. Johnson, chairman of Venture Law Group, a law firm that specializes in advising high-tech startups.

These divided loyalties may have cost shareholders billions. Companies, along with their bankers, wanted friends-and-family participants to make a tidy profit. For that reason, among others, they may not have sought top dollar for their offerings, according to research collected by Jay R. Ritter, a University of Florida professor of finance. This contributed to a \$62 billion disparity between IPO prices and prices one day later for all public offerings in 1999

and 2000. That money could have gone into company coffers, increasing the value for shareholders. "If it weren't for friends and family," says Ritter, "company executives would have pushed for a higher offering price."

Not all companies tolerate backroom dealing. A number of them, including IBM, Dell Computer, and Nokia, long ago established tough rules governing employee investments. Plenty of oth-

er half of 2002. Such deals could pick as the tech economy recovers and return.

giving gifts to curry favor in business long been standard operating procedure—from a round of golf to theater seats. Neither gifts nor stock grants against the law. But legal experts stock allocations create conflicts that individuals in positions where they place their own interests ahead of

their company's. That's why, long ago, much of the old guard in Corporate America adopted rules to keep such perks from swaying its executives. But at many young tech companies, traditional conflict-of-interest rules are often a work-in-progress—and ignored.

It's the New Economy turned Kick-back Economy. Consider a typical deal: After eight top sales executives at storage giant EMC Corp. bought ultracheap,

ers, such as Microsoft, Sun Microsystems, and Computer Associates, put policies in place in the heat of the dot-com boom. Still, many corporate policies remain murky—leaving employees unclear about what's acceptable. "When you're very vague about what the rules are, that's when people get into trouble," says Michael D. Lambert, a former senior vice-president at Dell.

These conflict-of-interest investments rarely lead to an explicit quid pro quo. In some cases, the amounts of stock are minuscule. Then the question becomes: At what point does a nice little thank-you become more like a bribe?

Tech-services upstart NetSolve Inc., for instance, says it doled out chunks of its 1999 IPO to 42 executives at companies that were customers. But no one received more than 100 shares. NetSolve's stock closed up 46% in its first day of trading, meaning 100 shares would have generated an immediate

works was able to command a high share price when it launched its IPO on June 30, 2000. The young company raised \$226 million that day. And its shareholders at EMC saw their investments rocket from 50¢ a share to \$90.25. EMC sales exec Robin A. Monleon, for instance, turned \$50,000 into more than \$2 million in just two years, according to SEC filings and insider-trading records.

But as StorageNetworks grew and EMC developed its services arm, the two companies found themselves competing. It got so bad that in June, 2000, just days before the IPO, EMC sent a letter to StorageNetworks complaining that it was poaching its employees and interfering with EMC's customer relationships. "These guys were getting paid millions of dollars to push EMC equipment, not to recommend StorageNetworks," gripes John F. Cunningham, a former EMC board member who says he resigned in 1999 partly because his private com-

MURKY IPO opportunities that carry an apparent conflict of interest rarely lead to an explicit quid pro quo. But at what point does a nice little thank you become more like a bribe?

profit of just \$600. "It seemed unseemly to say: 'Let us enrich you right before you make a decision about buying NetSolve's services,'" says Kenneth C. Kieley, NetSolve's CFO. "But if someone asked, and everybody was doing this, we didn't want to be impolite."

For startup StorageNetworks, there was nothing small about its pre-IPO stock allocations. In December, 1998, eight EMC sales executives accepted an invitation to buy preferred stock in StorageNetworks for 50¢ a share, according to Securities & Exchange Commission filings. StorageNetworks, a business that operates storage systems for its corporate customers, had the potential to become a customer, a partner, even a competitor to EMC.

After the investments, the EMC sales staff began recommending StorageNetworks to their customers. This business quickly grew to 40% of the startup's \$6.3 million revenue in 1999. Thanks in part to this relationship, StorageNet-

work's complaint to top management about the StorageNetworks investments yielded no action. "No question, it had an impact on their day-to-day decisions. It was a tremendous financial incentive."

An EMC spokesperson says Cunningham never voiced any complaints about the EMC-StorageNetworks investments, nor was he aware of anyone else protesting. He adds that any business lost to StorageNetworks was a drop in the bucket of EMC's \$6.7 billion in 1999 revenues. Through a spokesperson, Monleon declines to comment. StorageNetworks didn't return calls.

Tech executives and backers of startup companies admit they used their stock to gain an edge over competitors—or at least to get their foot in the door. Indeed, handing out shares often meant the difference between buyers taking a phone call and banishing it to voice-mail purgatory. "It was a way to say 'thank you' and a way to reach people who we wanted to help us in the future," says Dick Barcus, former president of optical-networking company Tellium Inc., which gave stock to executives at potential customers.

And executives were eager to invest. Take Cisco Systems Inc.'s Deborah Traf-



In 1999, eight top EMC execs buy early shares in StorageNetworks at 50¢ each. They funnel business to the startup—sometimes hurting EMC—before cashing out. Meanwhile, EMC complains to StorageNetworks that the startup is interfering with its customer relationships.

icante, a former regional sales director who oversaw a sales staff of 150. In 1999, she was invited to buy 85,174 preferred shares in telecom startup MegsNet for 56¢ a share, according to a list of shareholders prepared for the Internal Revenue Service that was obtained by *BusinessWeek*. The stock purchase came a few months before Cisco loaned MegsNet \$12 million to purchase Cisco equipment. When MegsNet was bought 10 months later by CoreComm Ltd., Traficante's stake was worth more than \$200,000.

RESPONSE Today, EMC says the impact on its business was immaterial.

Cisco says Traficante's investment had no impact on its relationship with MegsNet or on its decision to extend financing to the company. And Traficante's attorney says her behavior was appropriate and that she put all her gain back into CoreComm stock. They are now worth less than \$300. Cisco did not change its policy in 2000, however. New employees are required to get written permission from their superiors before accepting equity in companies in which they might be involved.

Few industry executives benefited from such deals. In 1999, eight top EMC executives bought early shares in StorageNetworks at 50¢ a share. He introduces StorageNetworks executives to Yahoo engineers. By early 2000, Yahoo is a customer of StorageNetworks—and an investor, at \$22.75 a share. Healy starts selling his shares in November, 2000, for a profit of at least \$211,000. Yahoo sells its stock in March, 2001, losing more than \$1 million.

Few industry executives benefited from such deals.



In 1999, eight top Yahoo! executives buy early shares in StorageNetworks at 50¢ a share. He introduces StorageNetworks executives to Yahoo engineers. By early 2000, Yahoo is a customer of StorageNetworks—and an investor, at \$22.75 a share. Healy starts selling his shares in November, 2000, for a profit of at least \$211,000. Yahoo sells its stock in March, 2001, losing more than \$1 million.

dent John Healy, a friend of StorageNetworks' founders, invests in the startup at 50¢ a share. He introduces StorageNetworks executives to Yahoo engineers. By early 2000, Yahoo is a customer of StorageNetworks—and an investor, at \$22.75 a share. Healy starts selling his shares in November, 2000, for a profit of at least \$211,000. Yahoo sells its stock in March, 2001, losing more than \$1 million.

RESPONSE Healy says he didn't influence Yahoo's decision to buy products from StorageNetworks.

BusinessWeek online

For a prescription on how to avoid conflicts in the future, go to the Feb. 10 issue at www.businessweek.com

richly from suppliers' largesse as the ss at Qwest. According to public uments and *BusinessWeek* interviews, Qwest execs held prime stock itions in at least a half-dozen suppliers, ranging from Foundry Networks ellium—much to the chagrin of the company's engineers. Indeed, one slide their presentation to Mohebbi asks company to bar vendors from anting personal options to key decision-making individuals." Mohebbi left est at the end of last year. His home ne has been disconnected, and he ld not be reached. Qwest says it has

HOW TO WIN FRIENDS AND INFLUENCE BUSINESS?

StorageNetworks, a 1998 startup, doled out exclusive pre-IPO stock to win customers and allies. The deals paid big for executives who pocketed the shares. But their companies and shareholders fared worse. Here's a glimpse:



contact information for Mohebbi. Qwest's biggest conflict may have ined CoSine Communications Inc. and asta Networks, which is owned by rtel Networks. The two companies e vying to sell hardware to Qwest. ineers say Shasta's gear cost less ould handle more than 100 times amount of traffic than could Coe's offering. Shasta's product also ovided access to users connecting ough everything from cable modems digital subscriber lines (DSLs); Coe's gear could not. "Shasta was so beyond where CoSine was that there s no comparison at all at the time," alls former lab manager Marshall. While Qwest bought gear from Shas-it also bought from CoSine. In its ini-purchase, Qwest ordered 35 CoSine es, recalls one engineer. Many of se boxes, say Qwest engineers, end-up sitting unopened in warehouses. So why do the deal? Qwest engineers arge it was personal greed. At the ne, at least four top Qwest execu-es, as well as an investment firm con-

trolled by then-Chairman Philip F. Anschutz, held more than 1.6 million preferred shares of CoSine stock, according to public documents. A Qwest spokesperson will say only that the company has new management. Qwest changed its conflict-of-interest policy in late 2002 to prohibit employees from investing in companies that have a connection to Qwest. A spokesman for Anschutz says he is not involved in decisions related to small investments and did not influence the CoSine/Qwest relationship. CoSine declines to comment.

For some Qwest execs, investments in CoSine never paid off. Although the stock popped 63% on its first day of trading, a lockup on preferred shares kept Qwest managers from selling for 180 days. Public records show that only Anschutz Investment Co., made a profit. Anschutz' company bought in at an earlier date (and a lower price), making a tidy \$700,000.

Most friends-and-family stock, however, had no such lockup. That's why executives rarely passed on the opportunity. It took Colin Dalzell, an executive at systems integrator MCI Systemhouse, just a few hours to decide to buy the shares offered by e-business software maker Commerce One Inc. in 1999. It turned out to be a

wise investment: Dalzell turned \$21,000 into \$61,000 in a day. His \$40,000 profit paid for a 1965 Cobra racing-car kit.

Dalzell says the payment wasn't enough to influence his dealings with Commerce One. He had worked with the software maker for years and says his relationship with the company was established long before the IPO. Still, he concedes that a conflict could have arisen. "If it had been for more money, I would have thought more about how much bearing it had," he says.

Friends-and-family stock also cements relationships with market researchers. Juniper Networks, for example, gave IPO shares to analysts at a smattering of research houses, including Yankee Group and RHK, according to Juniper's former director of communications, David Abramson. The idea was to garner favorable attention among influential analysts, he says. Abramson was fired by Juniper in January, 2000, and recently had a lawsuit against the company dismissed. While Juniper declines to comment on the stock allocations, the com-



In early 2000, CEO Greg Reyes buys pre-IPO stock in StorageNetworks for \$8.57 a share.

A month later, Brocade signs a supply-and-marketing contract with Storage, which helps boost its stock. Brocade invests later, at a higher price—and loses more than \$2.5 million. But Reyes makes a profit of some \$1.1 million.

RESPONSE Brocade says Reyes removed himself from dealings with StorageNetworks.

pany says it did not need to buy influence. RHK says its will no longer take stock in companies it covers. Calls to Yankee Group were not returned.

Others dispute that there's anything to clean up. Frank Dzubeck, a networking analyst with his own firm, Communications Network Architects in Washington, D.C., admits he held stock in several startups, including Foundry Networks, Alteon, and Convergent Networks. He says it was payment for consulting services. Dzubeck says that hasn't influenced his opinions and he always discloses his ownership stakes to clients. "I'm always going to give my honest opinion," he says.

Taking Dzubeck at his word may be fine for some. But execs say the best way to guard against conflicts and questionable behavior is for the high-tech industry to adopt sharply chiseled rules that bar stock ownership in companies where business ties exist. As recent events show, one person's conflict can be costly for many.

With Ira Sager in New York

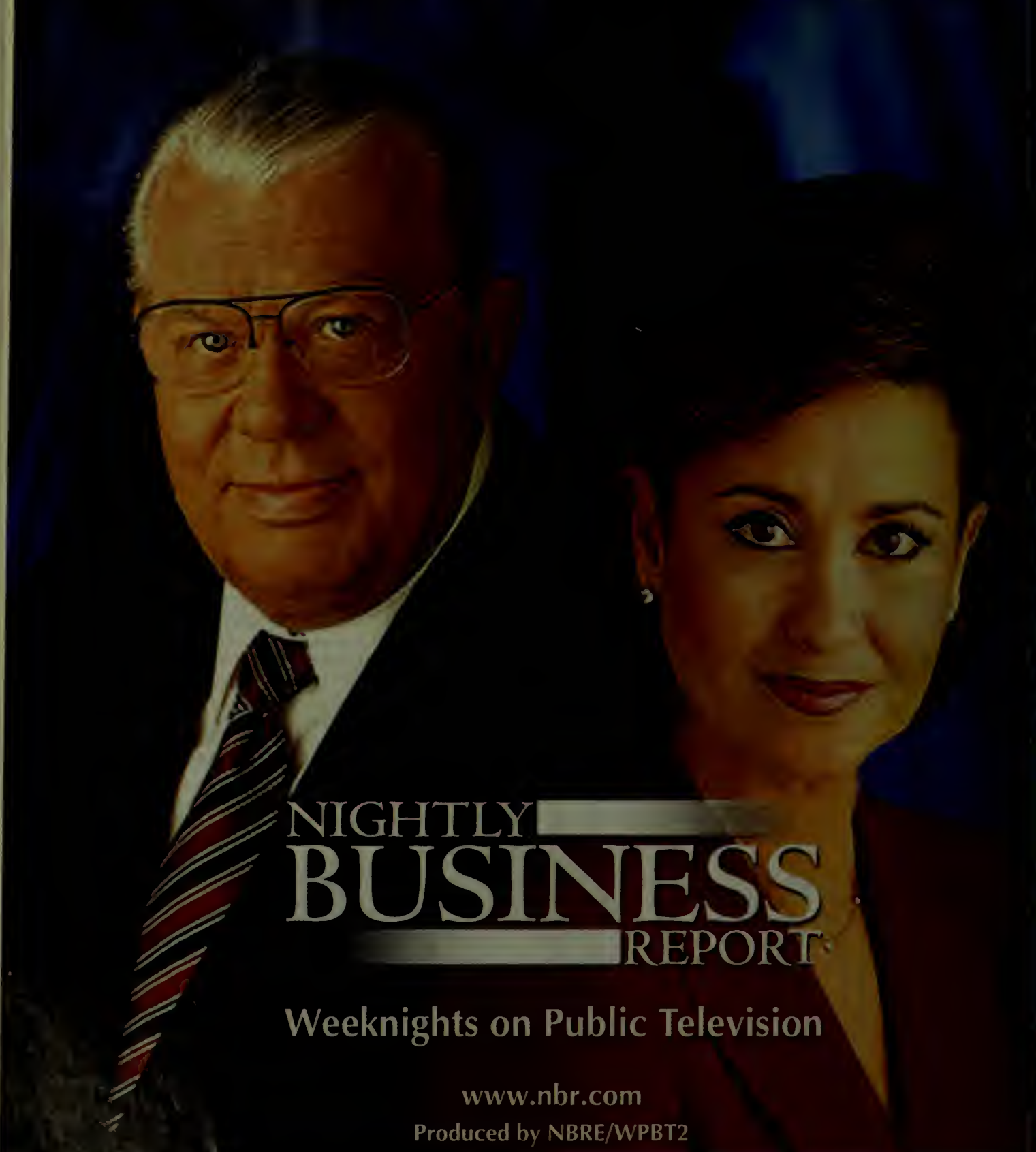


In January, 2000, six Exodus execs buy friends-and-family shares of StorageNetworks at

\$8.57. Six months later, Exodus signs a cross-marketing deal with StorageNetworks. Sales Vice-President Sam Mohamed snares a \$370,000 profit, selling his shares throughout 2001. Exodus buys stock at the same time, but sells later, losing more than \$1 million.

RESPONSE Exodus filed for bankruptcy in September, 2001, and was acquired two months later by Britain's Cable & Wireless. Mohamed didn't return calls.

100% business news.



NIGHTLY BUSINESS REPORT

Weeknights on Public Television

www.nbr.com

Produced by NBRE/WPBT2

Nationally Underwritten by:

A.G. Edwards
INVESTMENTS SINCE 1887

**Deloitte
& Touche**



FRANKLIN TEMPLETON
INVESTMENTS

BusinessWeek

Investor

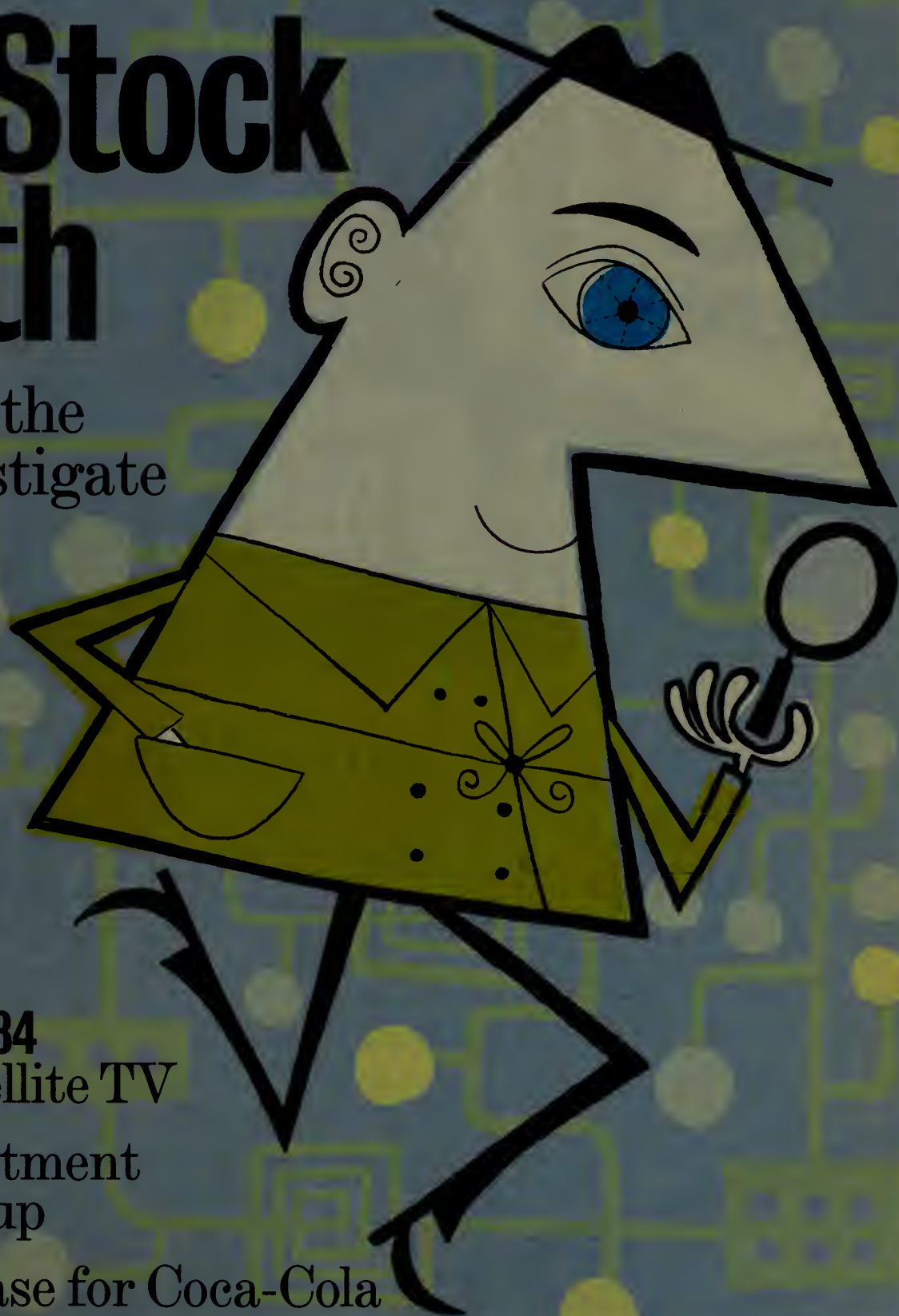
JANUARY 10, 2003

MAKING LIFE RICHER

Be a Stock Sleuth

How to Use the
Net to Investigate
Companies

Page 82



ENTERTAINMENT 84

Cable vs. Satellite TV

BOOKS 86 Investment
Guide Roundup

MARKER 89 A Case for Coca-Cola



Meet your Kid.

Harbinger of Technology.

Seed of Innovation.

And next in line to inspire us

to invent new technologies.

He is born to a tech savvy world. His ability to communicate is not linked to a place or tethered by a wire. Think of the innovation of his grandparents, his parents have seen. Nortel Networks™ helps create them generation-by-generation. And his demand more. As one of today's largest providers of networking, infrastructure and communications to enterprises and service providers in more than 150 countries, we're positioned at the epicenter of where technology is heading. Our vision is, and always has been, to seamlessly connect the world and transform the way each new generation communicates. To this end, we spend billions every year to lead the industry in research and development. True, our evolution to next-generation networks is challenging, but consider it grounded in the reality of our proven record over more than a century. And one of the best portfolios of products and technologies in the world. Consider too what your kid will inspire next. nortelnetworks.com/corporate

**NORTEL
NETWORKS**

nortelnetworks.com

Dividends

tips,
tidbits &
more

EDITED BY
TODDI GUTNER

THE STAT

0.4

CENT. The ratio of capital distributions to assets in equity mutual funds for 2002. It's down from 7% in 2000, and it's the lowest level since 1980.

Data: Strategic Insight

GLOBAL MARKETS

WHERE THE JOBS ARE

The bear market has been even more brutal overseas than in the U.S. Since the end of 1999, stocks in many countries have fallen so much that their average price-book values—the market value of a company's stock divided by what the company's books say it's worth—are approaching 1.0. When this number goes below 1.0, stocks are said to be really cheap.

AVERAGE PRICE-TO-BOOK RATIO

TRY	DEC. 31, 1999	DEC. 31, 2002
AIN	4.1	1.8
ADA	2.7	1.8
ICE	4.3	1.7
MANY	4.4	1.1
G KONG	2.3	1.1
AN	2.4	1.3
DEN	5.3	1.5
AN	3.5	1.5
	5.8	2.6

Data: Morgan Stanley



POETRY

Street Rhymes

MICHAEL SILVERSTEIN wants to be the bard of Wall Street. This 61-year-old publisher runs a Web site, Wallstreetpoet.com, devoted to parodying his favorite poets using the Street's lingo. Here's his take on Macbeth's famous soliloquy:

*Investing, and investing, and investing,
Sinks to new creepy depths from day to day
As battered equities do tumble time,
And all the cap gains we thought secure
Just flit away like dreams. Rise, rise, down market!
He also pens the occasional haiku:
Insiders got rich;
Other investors didn't;
So what else is new?*

Silverstein's inspiration came when he was a financial editor and discovered many readers loved poetry. Wall Street, he says, "is really another branch of the entertainment industry." The site has more than 100 poems. **Contributions are welcome**, so feel free to write a paean to your broker or a dirge about your losses. *Lewis Braham*

TIME OFF

HELLO, BIRDIE

In the swing at Atlanta airport

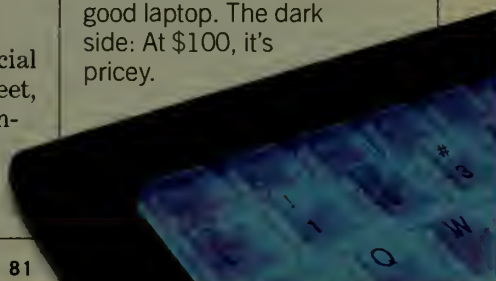
If you're stuck between flights in **Atlanta's Hartsfield International Airport**, you can read, snooze—or **take a golf lesson**. At Concourse B (Gate 16), Gravity Golf provides on-site instruction (30 minutes, \$80). Teaching pro David Lee and his staff instruct students to use more rotation and less brute force—allowing gravity to provide distance on their shots. Open daily, 8 a.m. to 10 p.m. (404 761-7770). Walk-ins are welcome.



KEYBOARDS

LIGHT TOUCH

Night owls will appreciate Auravision's **EluminX keyboard (eluminx.com)**. It lights up with a blue glow that makes it easy to see keys even in a pitch-black room. The streamlined layout and key travel are like that of a good laptop. The dark side: At \$100, it's pricey.



Sleuthing Stocks On the I-Way

A few clicks can yield surprises about companies and brokers. **BY GARY WEISS**

SHREWD PROFESSIONAL INVESTORS have always tried to get an edge by a variety of dogged research methods. Short-sellers have hired private detectives to scope out potential scams, and some fund managers employ doctors to evaluate the claims of pharmaceutical companies. Others have systematically surveyed consumer products and quizzed customers. The pros can hire people to do that work, but what about the rest of us? Well, the Internet is finally leveling the research playing field. You can now engage in first-class sleuthing without leaving the warm glow of your computer monitor. It's easy, it's free, and it can even be fun.

Even the humblest investor can adroitly scope out potential investments, as well as the pedigrees of brokers, brokerage firms, and investment newsletters. Indeed, more and more people have been using the Internet to aid regulators in their pursuit of investment scam artists (BW—Dec. 16). Using resources that have only recently become

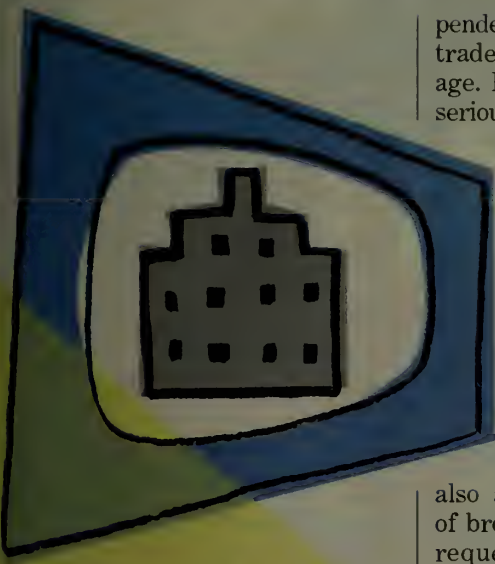
available online, amateur investigators can perform the kind of research that formerly required expensive databases and directories and time-consuming visits to public records offices. "You can give me a name, and I can come back with all kinds of information in five minutes," says Floyd Schneider, a New Jersey mortgage broker and amateur In-

ternet sleuth. "There are things on the Internet that people don't even realize are on there."

VANISHED PAGES

The place to begin an Internet investigation is with one or more of the popular search engines. The most comprehensive is Google, which has a valuable "cache" feature that allows you to get access to a Web page even if it has vanished from the Web. A less well-known site, Northern Light, is better for locating news articles and press releases. Another search engine popular with investigators, Dogpile, simultaneously explores several search engines. (Unless otherwise noted, the sites in this article are free of charge, and can be called up by just adding "www." before and ".com" after their names.)

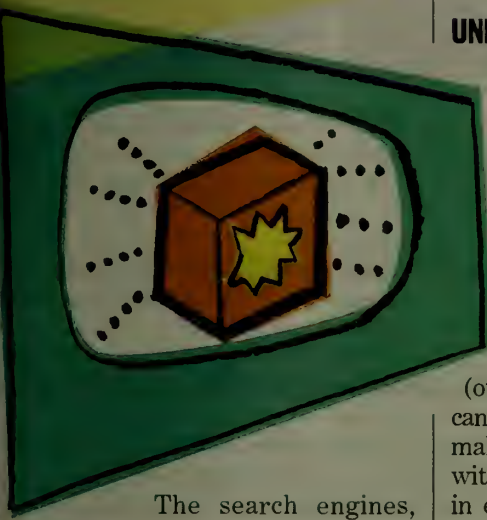




pendent one of the men for his work as a trader for a notorious Mob-run brokerage. In bygone years, turning up such a serious red flag would have taken a professional investigator days of searching.

As this example demonstrates, the Internet is an excellent place to conduct background research of brokerage firms, brokers, and investment newsletters. The sites of the NASD and Securities & Exchange Commission both provide public access to internal search engines that allow probes of past disciplinary actions. The NASD also allows you to search the records of brokers and their firms. It will, upon request, e-mail broker disciplinary records to investors.

UNFILTERED INFORMATION



The SEC is also the repository of the agency's EDGAR database of corporate filings, essential for any investor-investigator. But more obscure sites also can provide fascinating data, particularly for investors in the most hazardous end of the market—stocks in companies that are so tiny that they only trade on the OTC Bulletin Board.

By going to the OTC Web site (otcbb.com/dynamic/tradeact.htm), you can obtain records identifying the dealers making markets in OTC stocks, together with the volume recorded every month in each stock, broken down by market-maker. If the trading is dominated by just one or two market-makers, and those firms have disciplinary histories, this could be a sign the stock is a subject of market manipulation.

Another source of raw—in every sense of the word—information is investor message boards. Silicon Investor and the Yahoo! finance boards (messages.yahoo.com/yahoo/Business_Finance/Investments/index.html) are among the most heavily trafficked of such sites. These can provide a good deal of useful information, and even a way of communicating with corporate officers. But keep in mind that the boards are, on occasion, exploited by pump-and-dump scam artists.

Sure, you can pay big bucks, or nothing at all, for investment newsletters, most of which are on the Net. But check them out first. Start with the Wayback

Machine (archive.org), which allows you to travel in cybertime and examine old newsletter sites (or any Web site). By perusing past online “issues” and examining the subsequent performance of recommended stocks, you can swiftly determine if a newsletter is a good source of information or if it's little more than a stock-hyping mechanism. Some Internet sleuths take their investigation one step further by conducting searches on the people owning the sites. They get that info by putting the Web addresses into the Whois database. That reveals the registered owner of the site.

So let's say all this sleuthing reveals that a company's SEC filings are unremarkable and that its stock is neither manipulated nor associated with a shady brokerage house. If the company deals in consumer products or services, go straight to the sites that track consumer complaints. A solid source is the Better Business Bureau (BBB), bbb.org.

You can also check the cacophonous consumer sounding board, the Rip-Off Report. This is a kind of gloves-off, no holds-barred version of the BBB. Despite its tabloid-style format, the Rip-Off Report is tracked by short-sellers and investigators who are researching troubled companies. Always be sure to keep in mind that the Rip-Off Report, like the investor message boards, is unfiltered user-supplied information. But that's O.K. This is the Internet, after all—a repository of gold and garbage. A lot like Wall Street. ■

For Serious Gumshoes

Dogpile

www.dogpile.com

A search engine of other search engines

NASD Public Disclosure Program

<http://pdpi.nasdr.com/PDPI>

Use this to run a check on your broker

Rip-Off Report

www.ripoffreport.com/default.asp

A freewheeling consumer-beef Web site

SEC EDGAR Database

www.sec.gov/edgar/searchedgar/companysearch.html

The mother lode of corporate filings

Virtual Gumshoe

www.virtualgumshoe.com/gator204.htm

A directory of state government databases

Whois

www.netsol.com/cgi-bin/whois/whois

Use this to find out Web sites' owners

The search engines, when used with other Internet tools, can lead to surprising discoveries. Take the findings of one investor, who requested anonymity. He began with a Google search on a small over-the-counter stock. Among the numerous hits it yielded was a Web site that displayed press releases—including one issued by a Florida brokerage that was initiating research coverage of the company. The location of the brokerage was a break. Florida is one of a growing number of states whose corporate records databases—once formerly available only through costly data-retrieval services—are now online (sunbiz.org/web/inquiry/cormenu.html). By putting the name of the brokerage in the Florida site, the sleuth obtained the names of two corporate officers. He entered each name in Google—which can search names and phrases if you put words within quotation marks—and found a National Association of Securities Dealers document with a startling finding. The NASD had fined and sus-

The Dish Of Your Dreams?

How satellite TV stacks up against cable.

BY RONALD GROVER

Rising rates and poor service are sending cable-TV customers to satellite-TV providers. Last year, the number of households using cable, nearly 70 million, fell for the first time. Considering a switch? Here are answers to questions you may have:

What's satellite's biggest attraction?

Some say it's the picture. A 2001 survey by Consumer Reports of 2,000 cable and satellite subscribers said picture quality was "significantly higher" for satellite than for cable delivered digitally. Cable's older analog services were a distant third.

What about price?

Everyone's offering deals, including introductory offers of free HBO or discounted subscriptions. Generally speaking, satellite offers lower monthly prices than cable, especially if you don't need several news or sports channels. The Dish Network offers 50 channels and local service for \$28.99, and

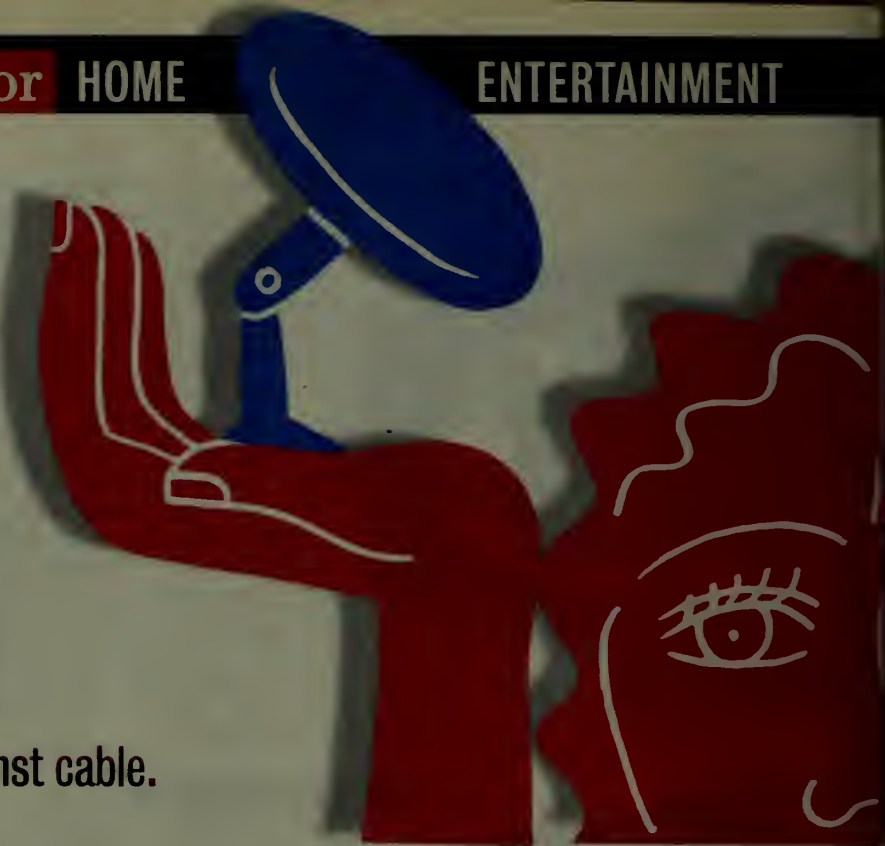
DirectV's best deal is \$37.99 for 115 channels and local service, still less than what many cable operators charge for their expanded services. The best prices usually include purchase of the dish.

In how many markets does satellite offer local channels?

About 50, but that's expected to grow. Where available, both services charge \$5.99 a month extra.

Are there "hidden costs" for satellite, as cable alleges in its ads?

Yes. Both DirecTV and Dish require consumers to sign up a year for some of their plans. In some cases, both charge up-front fees to activate service. Additional sets cost \$50 a month more. Both may require the purchase of hardware for additional rooms at costs of up to \$99 each. Cable companies don't require equipment purchases, but some charge for installation and most charge for digital set-top boxes.



WIRELESS EARSETS

CUTTING THE CELL PHONE CORD

I don't know what I was dreaming of—James Bond, maybe, or *Star Trek's* Lieutenant Uhura—walking around with a nifty little wireless communicator stuck in my ear. I spent the past few weeks testing devices that let you do away with the headset cord between your ear and your cell phone. My conclusion: Dream on.

The new earpieces are among the first practical applications of Bluetooth, a much-anticipated radio technology we've been hearing about for several years. The promise is to connect wirelessly all manner of

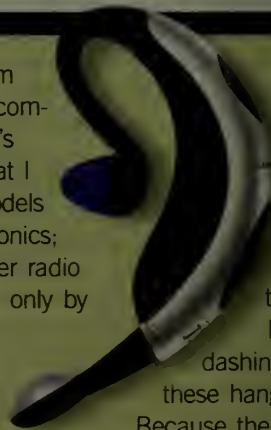
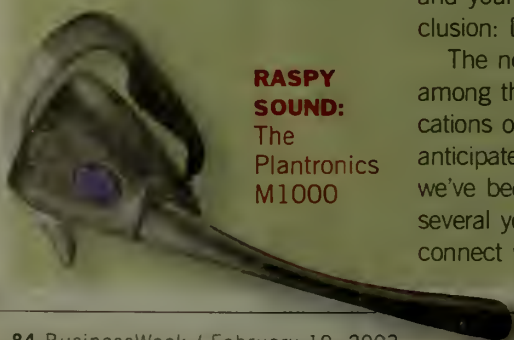
high-tech gadgets, from phones to PDAs and computers—even your car's sound system. Two that I tried are Bluetooth models from Jabra and Plantronics; the third uses an earlier radio technology and is sold only by RadioShack.

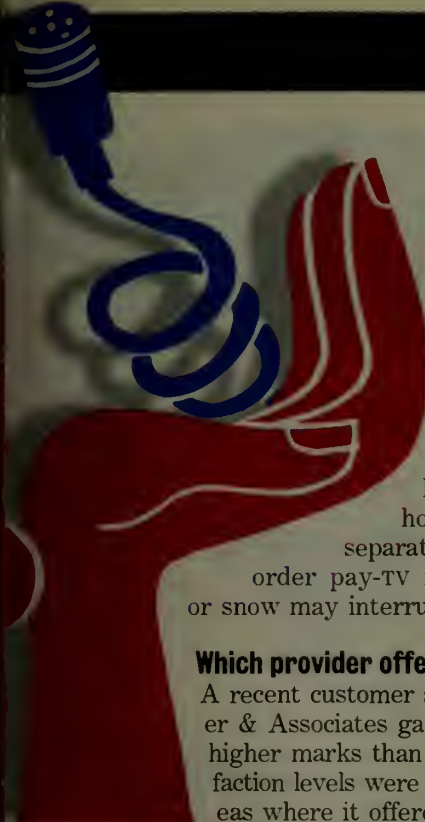
Even if you don't have a phone with Bluetooth technology built in, you can get an optional Bluetooth adapter that plugs into any phone's audio jack to complete the wireless link to the phone. The \$100 RadioShack Air Bud can be used

SLIGHT EDGE: The FreeSpeak from Jabra

only with a car, and it's not as tough to dash a figure with these hanging on your ear. Because the earsets are battery-operated, they're bulky, but they're not cheap: I found Jabra FreeSpeak on the market for \$80 to \$100, or \$130 to \$150 with the adapter. The Plantronics M1000 is \$99.

RASPY SOUND: The Plantronics M1000





Does satellite have any technology limitations?

To receive a signal, your satellite dish will need an unobstructed view of the southern horizon. A telephone hookup, though not a separate line, is required to order pay-TV movies. Heavy rain or snow may interrupt the signal briefly.

Which provider offers better service?

A recent customer survey by J.D. Power & Associates gave DirecTV and Dish higher marks than cable. But the satisfaction levels were closer for cable in areas where it offered digital service.

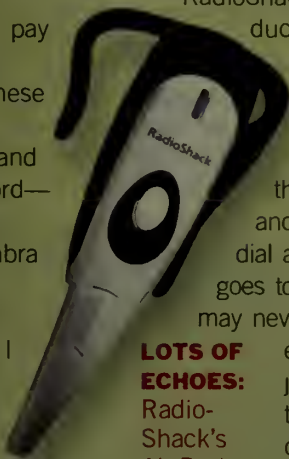
What about price hikes?

Increasing program costs will force up cable and satellite rates, though for now it looks as if the hikes will be greater for cable, which spent billions laying fiber-optic cables. This year, cable rates are likely to go up nearly 6%, twice the inflation rate. Dish just announced a 4% increase, its second in many years, and DirecTV is expected to raise rates soon.

Are there reasons to stick with cable?

Cable can use its wires to bundle two-way services such as phone and Internet access, and offer them at reduced rates. Satellite providers don't offer phone service, and Internet offerings are limited. Dish customers get a \$10 month-discount if they sign on with DSL provider EarthLink. DirecTV sells satellite-delivered Internet for \$99.99 a month, mostly in areas where DSL or cable is unavailable. The monthly price drops to \$59.99 for consumers who pay \$579.98 for the equipment to get Internet access via satellite. ■

\$120 to \$200 for the full version for non-cordless phones. The real price you pay depends on quality. I found that none of these sounded as good as the earbud and one—with cord—comes free with most phones. The Jabra Light Edge in my hand and sound is especially as I moved away from the phone—30 feet away—the unit gives my voice a slightly scratchy, raspy quality. The RadioShack model produced lots of static and echoes. Remember, you will still need to pick up the phone now and then—say, to dial a number. Which goes to show that you may never truly be untethered. For now, I'll just deal with untangling the cord once in a while.



LOTS OF ECHOES: RadioShack's Air Bud

Larry Armstrong

CHOCOLATE

Couture Chocolates: Now That's Sweet

Looking to melt a heart on Valentine's Day? Get help from artisanal chocolatiers, craftspeople who meld rich,



EYE CANDY: Painted treats from Ganache Chocolates

natural flavors and higher cacao content—but no preservatives—in ingenious confections.

In New York, pastry chef **Jacques Torres** (mrchocolate.com) has made a splash with truffles in flavors such as Earl Grey Tea and Grand Marnier, while

Garrison Confections

(garrisonconfections.com) is warming hearts with Chestnut Armagnac and Winter Mango. San Francisco's Pete Slosberg, creator of Pete's Wicked Ale, has started

Cocoa Pete's Chocolate

Adventure (cocoapete.com). Check out his Hallowed Grounds, with dark chocolate, caramel, and Italian-roast coffee.

Chocolatier Editor Michael Schneider raves about **Ganache Chocolates** in Fort Myers, Fla. (ganachechocolate.com), for hand-painted creations bursting with banana or pineapple flavor.

Sure, they run \$40 per pound and up. Still, "I never have any complaints about the prices," insists Torres. After all, who can put a price on delivering a sublime experience to your beloved?

Gerry Khermouch

A Portfolio of Advice For Grim Times

This year's crop of investment guides makes for fairly gloomy reading. Yet some authors have found a little honey amid the bear market. **BY ROBERT BARKER**

READING USED to be such a pleasant escape. Even books about money—mid-Clinton Era stuff such as *The Millionaire Next Door*, for example—took us to fantasyland. Today, three years into a relentless bear market, the money books have taken a turn toward harsh realism. To see what I mean, look no further than the latest from James J. Cramer, ***You Got Screwed! Why Wall Street Tanked and How You Can Prosper*** (Simon & Schuster, \$20).

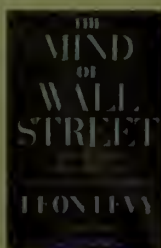
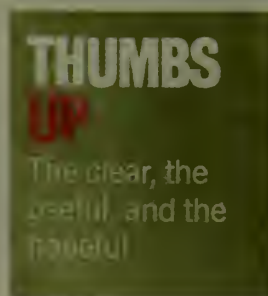
A hyperactive ex-hedge fund manager, CNBC personality, and author of last year's hot seller, *Confessions of a Street Addict*, Cramer is back with a breathless rehash of such fiascoes as WorldCom and Enron. Few Establishment types escape his glare, nor do the feckless financial media he knows so well. He recounts how, at TheStreet.com, a Web site he co-founded, he repeated the advice he had given his dad, which was to dump Janus mutual funds. Janus then killed a \$400,000 ad deal, he says. Such pressure, plus legal threats, got financial writers to turn a blind eye to all the hype during the bubble: "If you hinted that something was dirty, your managing editor was right in your face

telling you about corporate libel," Cramer writes, overstating his case as usual. *You Got Screwed!*'s 117 pages are more screed than book, with stock tips tacked on at the end. They amount to using index funds, possibly bolstered by a small portfolio of dividend-paying companies with strong balance sheets.

All of us who are sick of Cramer's shtick will find a fast-acting antidote in Leon Levy's ***The Mind of Wall Street*** (Public Affairs, \$26). An early partner and research director at Oppenheimer, Levy is Cramer's temperamental opposite: soft-spoken, clear, and wryly amusing. His book is part memoir and part diagnostic manual on Wall Street's addled ways. Along with co-author Eugene Linden, he sketches many of the characters he encountered, from his boss Max Oppenheimer to real estate mogul William Zeckendorf and even Enron's Andy Fastow. Levy details the patient way big scores were made by the likes of J. Paul Getty, and he dissects the Long-Term Capital Management cadaver. His view of the future is by no means bright: It's possible, Levy writes, that we will see stocks sink to levels last seen in 1995, when the Dow Jones Industrial Average sat south of 5000.

On this much, anyway, Levy would agree with Cramer: When it comes to your money, few can be trusted. That too-late-appreciated truth has given rise

to a slew of books bent on guiding do yourself investors back to the basics. One that proved a keen disappointment is ***Morningstar Guide to Mutual Funds: 5-Star Strategies for Success*** (Wiley, \$24.95). Morningstar has done much to clarify the choices confronting investors. Yet this book, by Christine Benz, Peter DiTeresa, and Russel Kinnel, suffers from scattershot organization and way too much minutiae. For example, in a section on families, we learn which are publicly held companies. But why do we care? Shuffling through such clutter, I got a sad sense that much of it was swept from other projects and turned into a book. You can safely skip the first 100 pages and focus on pages 199-212, which tell how to build solid fund portfolios. A happier surprise lies between the covers of ***Straight Talk on Investing: What You Need to Know*** (Wiley, \$22.95) by Jack Brennan with Marta McCave. Brennan heads the No. 2 mutual-fund outfit, Vanguard Group. It has been his peculiar hell to succeed Vanguard founder Jack Bogle, whose regular pronouncements make him the mutual-fund world's leading iconoclast. To be heard over Bogle, Brennan would have to talk as fast and loud as, heaven help us, Cramer. Instead, he doesn't, and the result is a fine book that's short on flash and long on balance. For



THE MIND OF WALL STREET
by Leon Levy



STRAIGHT TALK ON INVESTING
What You Need to Know
by Jack Brennan with Marta McCave



UNLIMITED RICHES
by Robert Shemin





ing control over their lives...They could even become hostile." So what to do? Don't press, unless it can't wait, and then "push—but delicately and with love."

Running parallel to the back-to-basics trend is a raft of titles on investing in that ultimate basic, real estate. A good case in point is **Unlimited Riches** (Wiley, \$24.95) by lawyer and real estate guru Robert Shemin. In it, you'll find plenty of useful tips, plus cold-blooded advice on exploiting others' moments of weakness. He tells, for instance, how to make pals with nursing-home administrators in order to learn which patients are ready to dump a house fast. Also, how to work the obits: "You could be doing their relatives a service by writing or calling them and saying, 'I am so sorry to hear about your loss, but if you

have any property you want

to dispose of quickly, I can help you.'" Not revolted by that? You may be on your way to riches.

If you suspect wealth isn't awaiting you, try the latest edition of Ralph Warner's **Get a Life: You Don't Need a Million to Retire Well** (Nolo, \$24.99). It has sound, concise advice on picking funds and figuring how much you'll need to retire, but mainly this volume extols the other assets that enrich life after work: family, friends, health, and community ties. The author does this using interviews with the real experts—ordinary retired folks. Warner may give too-short shrift to the helping hand that steady cash flow brings. Yet as an escape from today's harsh environment, you won't find better reading. ■

ance, while discussing "balanced" funds—those holding both stocks and bonds—Brennan notes: "Balance in investing is like a navy-blue blazer—you can joke about it being stodgy, but over and over again it has demonstrated reliability." It's an apt metaphor for Brennan's book, which succeeds as an excellent guide for beginners. Its key message: "There are financial professionals who want to make you think you can't make your own investment decisions. Don't believe them."

An inescapable fact about all books such as Brennan's is that they are, in part, marketing ploys. This is also true of Charles R. Schwab's latest. The brokerage pioneer has teamed up with his

daughter, Carrie Schwab-Pomerantz, on **It Pays to Talk: How to Have the Essential Conversations with Your Family About Money and Investing** (Crown Business, \$24.95). But it's not the subtle sales lure that is the problem here, because the authors' hearts are clearly in the right place. It's that this book spends too much time on run-of-the-mill personal finance advice and not nearly enough on the tougher stuff of dealing with money within families. What it does offer is often superficial: "Although your parents may welcome talking to you about their financial situation, they may also resist. Losing their privacy may feel like a first step in los-

Need
Warner

THUMBS DOWN
The loud, the cluttered, and the superficial

YOU GOT SCREWED!
WHY WALL STREET TANKED AND HOW YOU CAN PROSPER

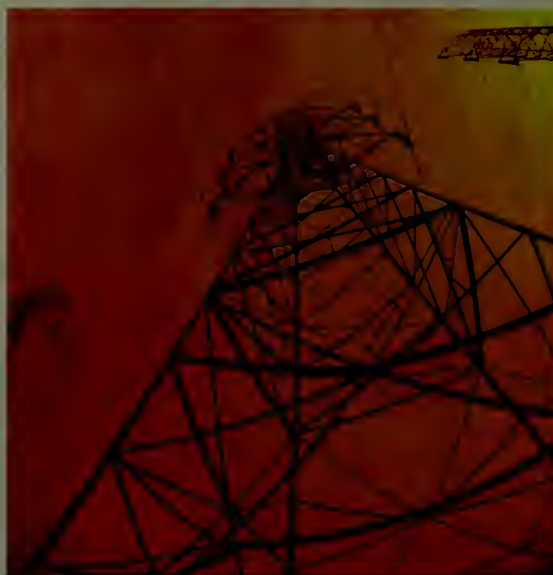
YOU GOT SCREWED!
Why Wall Street Tanked and How You Can Prosper
by James J. Cramer

MORNINGSTAR GUIDE TO MUTUAL FUNDS
5-STAR STRATEGIES FOR SUCCESS
by Christine Benz, Peter DiTeresa, and Russel Kinnel

MORNINGSTAR GUIDE TO MUTUAL FUNDS
5-Star Strategies for Success
by Christine Benz, Peter DiTeresa, and Russel Kinnel

IT PAYS TO TALK
How to Have the Essential Conversations with Your Family About Money and Investing
by Charles R. Schwab and Carrie Schwab-Pomerantz

IT PAYS TO TALK:
How to Have the Essential Conversations with Your Family About Money and Investing
by Charles R. Schwab and Carrie Schwab-Pomerantz



sis. That would be a "significant gain, given difficult stock market conditions, Merrill says.

So which companies deserve a look? Three that stand to benefit more than others from the President's plan have above-average earnings growth, a healthy balance sheet, and room to raise dividends. Topping the list is FPL Group, owner of Florida Power & Light. FPL's profitability is benefiting from its recent investment in the Seabrook Nuclear Generating Station in New Hampshire where power prices are rising in response to cold weather. What's more, FPL has very little oil in its fuel mix. That insulates the company from worries about war

with Iraq, says Mark Luftig, a co-manager of the Strong Dividend Income Fund, 8.5% of which is in electric utilities. Portfolio managers favor New Orleans' Entergy, because its trading venture, Entergy-Koch, has enjoyed strong operating performance and should gain from rising natural-gas prices. Another favorite: Chicago's Exelon, which sells power from wind and nuclear, a high-margin energy source.

Barry Abramson of Gabelli Asset Management sees value in regulated utilities whose Enron-battered stocks are still well off their highs. Companies in this category, which aren't vulnerable to vacillating oil prices, include Boston's NSTAR, Energy East in Albany, N.Y., and Pittsburgh's DQE. Abramson finds them attractive because they have been selling off power plants to focus on energy delivery. "They're not trying to grow stocks—that's how the brethren failed," he says.

Even if the President's dividend plan is scaled back, utilities remain a safe place for investors. "In this environment, where volatility is so high, having a consistent anchor to your total return is important," says Judith Saryan, vice president of Eaton Vance Management. In other words, with geopolitical jitter rocking the rest of Wall Street, utilities provide welcome stability.

ENERGY-RICH

COMPANY/SYMBOL	PRICE*	DIVIDEND YIELD
Energy East EAS	\$20.12	5.0%
Entergy ETR	44.05	3.2
Exelon EXC	49.61	3.6
FPL Group FPL	57.22	3.9
NSTAR NST	41.48	5.2

*Jan. 27 Data: Bloomberg Financial Markets

Great Power Plays?

Reliable returns are one strong reason for buying utilities. **BY LAURA COHN**

AFTER last year's painful Enron hangover, electric and gas stocks are reviving. Things were already brightening by yearend, thanks to improved cash flow and a return to prudent power plant investment. Then President Bush helped out by revising the Clean Air Act and pushing Congress to cut taxes on dividends.

Reflecting the renewed optimism, the Dow Jones Electric Utilities Index has risen 4% since late October; and the Gas Utilities Index is up 4%, even though the Dow Jones industrial average has fallen 5%. Utilities are among the biggest dividend payers, with average yields of 4.5%. Without taxes, that's like earning 6.2% for those in the top bracket, according to a Jan. 7 Merrill Lynch analy-

LEAP

A REVOLUTION IN CREATIVE BUSINESS STRATEGY

Imagine a world where chicken means courage... inside is outside... kids dictate to CEOs... and an ad agency is told, "Create no advertising." This is the world of Leap: *A Revolution in Creative Business Strategy*, a new book by industry leader Bob Schmetterer, Chairman and CEO of Euro RSCG Worldwide. With page-turning readability, he redefines advertising by defining the new art of profitable innovation: Creative Business Ideas,® surprising and successful strategies that go beyond communications, to the heart of business itself.

NOW IN BOOKSTORES AND ONLINE.

WHY THINGS MAY GO BETTER WITH COKE

BY ROBERT BARKER rb@businessweek.com

COCA-COLA'S LATEST television ad features R&B singer Mya growling: "Try to make it real, compared to wha-haat!" It's a catchy phrase, and Mya is sure to catch eyes, too. But Coke's brand-new ad campaign isn't helping draw investors' attention back to its stock. Shares in the world's No.1 beverage company have skidded for most of the past five years, no matter that its board includes the world's No. 1 investor, Warren Buffett. The stock, at \$42 lately, is nearing seven-year lows (chart).

Investors certainly weren't comforted when the company announced in December that it would quit offering guidance on earnings once 2002's were on the books. Last year's results are set to be made public on Feb. 12, and while they are expected to show a 10% gain in profits, the stock is trending down. As you might expect, some contrarians are beginning to see this once wildly overvalued stock as almost cheap.

LOST THAT FIZZY FEELING

COCA-COLA STOCK PRICE

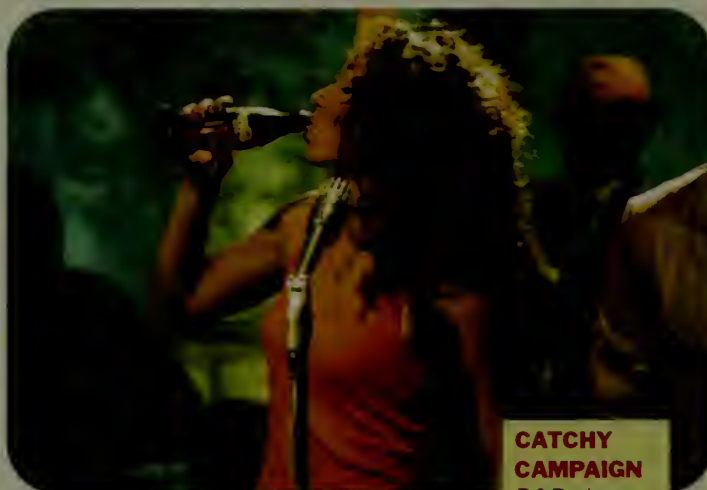


MONTHLY CLOSING

JAN. 31, '98 JAN. 27, '03
DOLLARS

Data: S&P ComStock

But investors may be in for some happy surprises. The climb out on this limb for three reasons. First, Coke has always been so strong financially. Back in 1997, at the height of its prosperity and just months before its stock would crash, Coke enjoyed an operating margin of 27%. Net debt was just 18% of capital. Now, the operating margin is run-over 30%, and debt is 16% of capital. Here's another way to look at Coke's financial heft: Through Sept. 30 last year, Coke had earnings enough to pay fixed charges 24 times over; as recently as 2000, that figure was under 9. Next, if the company's own forecast for the coming five years is even close to correct, free cash flow is set to surge.



CATCHY CAMPAIGN
R&B singer Mya in the new Coke commercial

Over the five years ended in 2002, operations generated a total of \$19.6 billion in cash, \$4.3 billion of which went to capital spending and \$11 billion to dividends and share repurchases. In the coming five years, Coke expects at least \$31 billion in cash flow, including \$26 billion after capital spending. Most of that would be available for dividends and stock buybacks. Coke repurchased shares worth \$750 million in 2002. Gary Fayard, Coke's chief financial officer, told me the company plans this year to double that amount and spend \$1.5 billion on buybacks. Fewer shares outstanding mean more earnings per share.

Finally, there's a wild card: the dollar. Because fully 76% of Coke's operating income flows from abroad, changes in the dollar's value vs. foreign currencies hold a big sway over the company's results. Since 1996, the dollar kept strengthening against a basket of currencies important to Coke. The company's current five-year forecast envisions a steady dollar, but that alone is a major change. "If currencies would just be neutral, I'd be happy," Fayard said. "Just don't put huge drags on my earnings every year." And what if the dollar were to keep weakening? "We'd have more money than we'd know what to do with," Fayard said.

Naturally, managements are always optimistic, often overly. Coke sees annual average earnings growth through 2007 of 11% to 12%. Let's trim that back and instead assume that growth in free cash flow averages 10% a year. At current multiples, this math suggests a \$66 stock in four or five years. A winning investment? Compared with the grand slam slugged by Buffett when his Berkshire Hathaway picked up its first big Coke stake back in 1988 at a split-adjusted \$5.23 a share? No. Compared with the five-year Treasury note's current yield of 3.0%? Really. ■

BusinessWeek online

For an archive of columns, go to www.businessweek.com/investor/ and click on "Columns"



COMING THIS SEASON: A WAVE OF DEPARTMENT STORE MERGERS BATTERED TENET HEALTHCARE MAY SOON BE BACK IN THE PINK. AMERICAN ELECTRIC POWER SORELY NEEDS A POWERFUL JOLT.

BY GENE G. MARCIAL

Retail Goes Shopping

Mergers and acquisitions went AWOL in 2002, but they'll make a comeback this year, say some buyout pros. One sector teeming with takeover bait: retail. "Companies that have been hammered need to get bigger," says Gilbert Harrison, chairman of Financo, an M&A boutique specializing in retail and merchandising deals. For department stores, consolidation is "absolutely necessary" to ensure growth, he argues, and stores will look to acquire over-leveraged rivals at bargain prices. So stores with big debt and high expense ratios are targets, says Harrison.

Among the majors, Federated Department Stores (FD), with 468 outlets including Macy's and Bloomingdale's, is rumored to be interested in merging with May Department Stores (MAY), with 437 stores including Lord & Taylor and Robinsons-May. Both are trading at or close to their lows and face flat sales and earnings in 2003 and 2004. Harrison declined to comment on Federated and May but says he is busy with several retail deals. Federated and May declined to comment.

On the prowl: Wal-Mart Stores (WMT), J.C. Penney (JCP), and Neiman Marcus (NME). Possible partners: Kohl's (KSS), Gap (GPS), and Coach (COH)—says one investment banker. Christine Augustine of Bear Stearns sees department stores losing ground to smaller, more entrepreneurial retailers, such as Kohl's. She also sees "another wave of industry consolidation" as the majors try to cherry-pick them. The survivors among the department stores, says Augustine, will be those with the resources to pursue acquisitions.

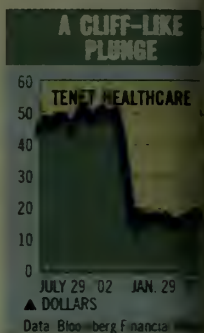
Can Tenet Fight Off Its Many Ailments?

Shares of Tenet Healthcare (THC), No. 2 in hospital management, have been under the weather since late October, plummeting from 50 to 14 by Nov. 11. They're now at 18. Tenet is facing government probes of its practices, including allegedly unnecessary surgery, unusually high Medicare payments for some cases, and suspicious trading of Tenet shares by insiders. Big investors bailed out as analysts downgraded the stock when the probe was announced in October. But some pros have turned bullish, with several fund managers buy-



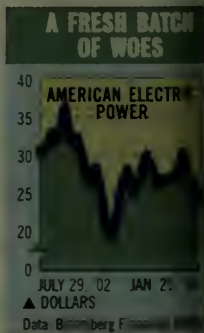
HARRISON

ing—and expecting the price to hit 40 this year. Cliff Hewitt of Legg Mason Wood Walker has upgraded the stock from a hold to a buy, emphasizing that it is for investors willing to tolerate further bad news from the investigations. He says the stock is worth 39, based on estimated earnings of \$2.50 a share in fiscal 2003 ending May 31, vs. \$2.17 in 2002. Earnings should drop to \$1.95 in 2004, he figures—as the probes wind up—and then rebound. Since free cash flow is expected to rise from \$800 million in 2003 to \$1.4 billion in 2007, Hewitt believes the financial risk from the probes is "manageable." With a shakeup in management and a new focus on internal controls, "Tenet will emerge from the crisis," he says, with its ills resolved in a year or two.



AEP Really Looks 'Dead in the Water'

This column featured American Electric Power (AEP) in the issue that hit the newsstands on Jan. 10, warning that, because of liquidity woes, AEP would have to cut its hefty \$2.40-a-share yearly dividend. AEP insisted it would not touch the payout. But on Jan. 24, the No. 1 utility announced it would slash dividends by 42% and take big write-downs. It also lowered 2003 estimates. The stock promptly sank—from 30 on Jan. 9 to 24 on Jan. 29—and may sink further. Jeffrey Gildersleeve of Argus Research, who downgraded AEP to a sell on Jan. 27, says it faces more credit downgrades, earnings drops, and operating weakness. Standard & Poor's put AEP on CreditWatch after the write-off. AEP is saddled with debt of \$12 billion. Moody's Investors Service has AEP's commercial paper on review. AEP is unclear what assets to unload to reduce debt, says Gildersleeve. Bryan Spratt of Banc One Investment Advisors, with 630,000 AEP shares, says AEP has yet to show how it will improve the balance sheet. It should issue new stock—diluting earnings but easing the debt issue, says. Until then, AEP is "dead in the water," adds Spratt.



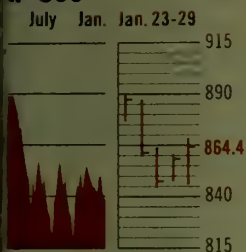
BusinessWeek online

Read Gene Marcial's Inside Wall Street Online monthly column at www.businessweek.com/today.htm. And see him Fridays at 1:40 p.m. EST on CNBC's *The Money Gang*.

Unless otherwise noted, neither the sources cited in Inside Wall Street nor their firms hold positions in the stocks under discussion. Similarly, they have no investment banking or other financial relationships with the companies.

STOCKS

S&P 500



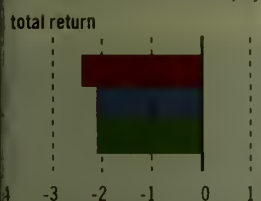
FINANCIAL MARKETS

Ending war with Iraq, rising oil prices, and sagging consumer confidence had the market in a mini-rally on the news. All the major market indexes ended lower on Jan. 29, as the Federal Reserve would keep rates low. The Dow lost 16 points, the S&P 500 shed 1.6%, and the heavy Nasdaq was flat.

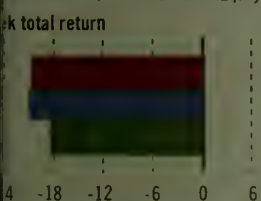
Source: Bloomberg Financial Markets, Reuters

MUTUAL FUNDS

Week ending Jan. 28



Week ending Jan. 28



Data: Standard & Poor's

THE WEEK AHEAD

MANAGING MANAGERS' INDEX Monday, Feb. 4 a.m. EST ► The Institute for Supply Management's January industrial-activity index probably slipped to 53.5%. That's down from the median forecast of 55.0% in the survey by MMS International.

CAR SALES Tuesday, Feb. 4 EST ► Sales of U.S.-made and imported cars and light trucks most likely slowed to an annual rate of about 16 million in January.

PRODUCTIVITY & COSTS Thursday, Feb. 6, 10 a.m. EST ► Output per hour worked in the fourth quarter is expected to have

increased at a 0.7% annual rate after a 5.1% jump in the third quarter. Unit labor costs most likely surged 2.7%, following a 0.2% decline from the previous quarter.

EMPLOYMENT Friday, Feb. 7, 8:30 a.m. EST ► Nonfarm payrolls in January are forecast to have grown by 50,000, while factories most likely trimmed 38,000 jobs. The jobless rate probably held at 6%, with hourly earnings very likely rising 0.3%.

INSTALLMENT CREDIT Friday, Feb. 7, 3 p.m. EST ► Consumers are expected to have added another \$3.4 billion of debt in De-

cember, compared with a decline of \$2.2 billion in November.

The *BusinessWeek* production index rose in the week ended Jan. 18 to 195.1, up 4.3% from the year before. The index has been revised back to 1992 to reflect the impact of the new North American Industry Classification System on certain components. More complete information is available at www.businessweek.com.

BusinessWeek online

For the BW 50, more investment data, and the components of the production index visit www.businessweek.com

U.S. MARKETS	JAN. 29	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
S&P 500	864.4	-1.6	-1.8	-23.7
Dow Jones Industrials	8110.7	-2.5	-2.8	-17.8
NASDAQ Composite	1358.1	-0.1	1.7	-30.1
S&P MidCap 400	417.2	-1.4	-2.9	-17.8
S&P SmallCap 600	190.3	-1.4	-3.2	-17.7
Wilshire 5000	8194.2	-1.5	-1.8	-22.6

SECTORS

BusinessWeek 50*	527.7	-1.8	-2.7	-22.7
BusinessWeek Info Tech 100**	283.9	-1.9	-0.5	-28.6
S&P/BARRA Growth	441.5	-1.4	-1.6	-25.2
S&P/BARRA Value	419.9	-1.8	-1.9	-22.5
S&P Energy	177.7	0.5	-2.9	-14.2
S&P Financials	293.3	-2.6	-1.2	-17.4
S&P REIT	87.1	-0.1	-4.1	-6.5
S&P Transportation	161.9	-1.1	-4.7	-22.6
S&P Utilities	95.3	-1.9	-2.5	-31.6
GSTI Internet	76.7	-1.0	2.7	-26.4
PSE Technology	465.0	0.2	1.5	-32.1

*Mar. 19, 1999=1000 **Feb. 7, 2000=1000

GLOBAL MARKETS	JAN. 29	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
S&P Euro Plus (U.S. Dollar)	807.3	-3.2	-4.4	-19.8
London (FT-SE 100)	3483.8	-5.3	-11.6	-32.1
Paris (CAC 40)	2840.1	-3.1	-7.3	-36.6
Frankfurt (DAX)	2706.6	-3.4	-6.4	-46.8
Tokyo (NIKKEI 225)	8331.1	-3.3	-2.9	-16.9
Hong Kong (Hang Seng)	9240.8	-3.3	-0.9	-16.1
Toronto (S&P/TSX Composite)	6573.2	-2.2	-0.6	-14.0
Mexico City (IPC)	5938.0	-1.4	-3.1	-13.6

FUNDAMENTALS

	JAN. 28	WK. AGO	YR. AGO
S&P 500 Dividend Yield	1.85%	1.79%	1.42%
S&P 500 P/E Ratio (Trailing 12 mos.)	26.6	28.3	53.7
S&P 500 P/E Ratio (Next 12 mos.)*	15.7	16.1	21.0
First Call Earnings Surprise*	3.35%	3.96%	1.10%

*First Call Corp.

TECHNICAL INDICATORS

	JAN. 28	WK. AGO	READING
S&P 500 200-day average	937.7	944.0	Negative
Stocks above 200-day average	28.0%	32.0%	Positive
Options: Put/call ratio	0.77	0.72	Positive
Insiders: Vickers NYSE Sell/buy ratio	2.38	2.34	Neutral

BEST-PERFORMING GROUPS

	LAST MONTH %	LAST 12 MONTHS %
Computer Stge. & Perphs.	18.7	25.0
Office Electronics	16.5	17.4
Internet Software	14.2	17.3
Broadcasting	14.1	11.5
Internet Retail	11.8	7.4

EQUITY FUND CATEGORIES

4-WEEK TOTAL RETURN % 52-WEEK TOTAL RETURN %

LEADERS

Precious Metals	3.0	57.3
Pacific/Asia ex-Japan	1.9	0.6
Technology	1.9	-2.6
Communications	-0.3	-6.8

LAGGARDS

Latin America	-6.6	-40.5
Europe	-5.2	-33.5
Natural Resources	-4.3	-26.9
Foreign	-4.1	-24.9

EQUITY FUNDS

4-WEEK TOTAL RETURN % 52-WEEK TOTAL RETURN %

LEADERS

ASAF Bernstein Mgrd. 500 B	53.1	89.7
Apex Mid Cap Growth	16.7	76.9
iShares MSCI Taiwan Index	12.3	76.4
New York Equity	12.3	72.8

LAGGARDS

iShares MSCI Brazil Index	-10.1	-70.9
iShares MSCI UK Index	-9.4	-68.9
RS Diversified Growth A	-9.3	-65.8
iShares MSCI Nethlds. Idx.	-9.1	-65.2

WORST-PERFORMING GROUPS

	LAST MONTH %	LAST 12 MONTHS %
Photographic Products	-15.4	-68.2
IT Consulting	-10.9	-59.6
Household Appliances	-10.7	-57.9
Tobacco	-9.9	-52.0
Aluminum	-9.8	-50.1

INTEREST RATES

KEY RATES

	JAN. 29	WEEK AGO	YEAR AGO
MONEY MARKET FUNDS	0.96%	0.99%	1.66%
90-DAY TREASURY BILLS	1.17	1.16	1.75
2-YEAR TREASURY NOTES	1.70	1.61	3.09
10-YEAR TREASURY NOTES	4.02	3.91	5.01
30-YEAR TREASURY BONDS	4.91	4.85	5.43
30-YEAR FIXED MORTGAGE†	5.97	5.88	6.96

†BancQuote, Inc.

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 30% federal tax rate.

	10-YR. BOND	30-YR. BOND
GENERAL OBLIGATIONS	3.86%	4.75%
TAXABLE EQUIVALENT	5.51	6.79
INSURED REVENUE BONDS	4.00	5.00
TAXABLE EQUIVALENT	5.71	7.14

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABB (ABB) 46
ABC (DIS) 28
Aetna (AET) 66
Airbus 12
Allen 70
Alltel (AT) 22
Alteon (ALT) 74
Amazon.com (AMZN) 36
American Electric Power (AEP) 90
American Express (AXP) 68
Anderson Merchandisers 36
Anschutz Investment 74
AOL Time Warner (AOL) 40, 70
Apple Computer (AAPL) 72
ARC Advisory Group 46
Argus Research 90
AT&T (T) 94
A.T. Kearney (EDS) 62
Atlanta Braves 70
Autodesk (ADSK) 36

Aventis 46

B

Baker Hughes (BHI) 34
Banc One Investment Advisors (ONE) 90
Bear Stearns (BSC) 90
Bechtel 34
Berkshire Hathaway (BRK) 89
Best Buy (BBY) 36
BHP (BHP) 34
Birinyi Associates 28
Boeing (BA) 12, 40
Boston Celtics 70
Boston Red Sox 70

C

Cable & Wireless (CWP) 62
Cadbury Schweppes (CSG) 47
Carlyle Group 40
Cessna (TXT) 12
Charles Schwab (SCH) 68, 86

Charter Communications (CHTR) 40
China National Oil 34
Cincinnati Reds 70
Cisco Systems (CSCO) 36, 74
Citigroup (C) 46
Claire's Stores (CLE) 90
Cleveland Cavaliers 70
Coach (COH) 90
Coca-Cola (KO) 47, 89
Cocoapete.com 85
Commerce One (CMRC) 74
Communications Network Architect 74
Computer Associates (CA) 74
ComVentures 74
Convergent Networks 74
CoreComm 74
CoSine Communications (COSN) 74
Crédit Lyonnais 51

Credit Suisse First Boston (CSR) 46

D

DaimlerChrysler (DCX) 52, 58
Dell Computer (DELL) 74
Dell'Oro Group 74
Deloitte & Touche 43
Delta Air Lines (DAL) 40
Deutsche Bank (DB) 34
Diesel.com 64
DirecTV (GMH) 52, 70, 84
Dish Network (DISH) 84
Dogpile.com 82
Donaldson Lufkin & Jenrette (CSR) 66
DQE (DQE) 88
DuPont (DD) 28

E

EADS 12
EarthLink (ELNK) 84
EasyLink Services (EASY) 66
eBay (EBAY) 12
Echo Networks 36
Electronic Data Systems (EDS) 62
Eluminx.com 81
EMC (EMC) 40, 74

EMI Group 36
Energy East (EAS) 88
Engelman Securities 68
ENI (E) 34
Enron (ENRNQ) 86, 88, 94
Entergy (ETR) 88
Ernst & Young 62
Eskimo Pie 52
E*Trade Group (ET) 68
Exelon (EXC) 88

F

Federated Department Stores (FD) 28, 90
Fianco 90
Fiduciary Trust 33
FMC (FMC) 40
Ford (F) 52, 58
Foundry Networks (FDNY) 74
FPL Group (FPL) 88
France Télécom (FTE) 44

G

Gabelli Asset Management (GBL) 88
Gallup Poll 32
Ganachechocolate.com 85
Ganis Credit 68
Gap (GPS) 40, 90

Garrisonconfections.com 85
Gartner (IT) 44
General Dynamics (GD) 46
General Electric (GE) 46
General Motors (GM) 52, 58
Genius Group 64
Gimme Credit 52
Goldman Sachs (GS) 68
Google.com 82

H

Halliburton (HAL) 34
H&R Block (HRB) 62
Handspring (HAND) 22
High Tech Computer 44
Hindustan Coca-Cola 4
Hitachi Delta Systems 4
Holden (GM) 52
Honda (HON) 52
Honeywell International (HON) 46
Houbigant 43
Houlihan Lokey Howard Zukin 70
Huawei Technologies 36
Hughes Electronics (GM) 52, 58



3M) 38, 40, 74 or 46 i 36	May Department Stores (MAY) 90 Maytag (MYG) 62 McGraw-Hill (MHP) 91 MCI Systemhouse 74 McKinsey 38, 62 Megsinet 74 Merrill Lynch (MER) 72, 88 Microsoft (MSFT) 22, 40, 44, 74 Minnesota Twins 70 Minnesota Vikings 70 Moag 70 Montreal Expos 70 Moody's Investors Service (MCO) 90 Morgan Stanley (MWD) 28, 46 Morningstar 86 Motorola (MOT) 44 Mrchocolate.com 85 MTV 64 MusicNet 36	Nokia (NOK) 44, 74 Nortel Networks (NT) 74 Northernlight.com 82 NSTAR (NST) 88	Royal Dutch/Shell Group (RD) 34	T Telefónica Móviles 44 Tellium (TELM) 74 Tenet Healthcare (THC) 90 Texas Pacific Group 40 TheStreet.com (TSCM) 86 Thomas H. Lee Partners 40 Thornburg Investment Management 68 T-Mobile International (DT) 44 Total Fina Elf (TOT) 34 Tower Records 36 Toyota (TM) 52 Twentieth Century Fox (FOX) 72 Tyumen Oil 34	W Wal-Mart Stores (WMT) 36, 90 Wallstreetpoet.com 81 Walt Disney (DIS) 70, 72 Warner Bros. (AOL) 72 WellPoint Health Networks (WLP) 66 WorldCom (WCOEQ) 74, 86, 94 WSL Strategic Retail 64
(JANSX) 86 nney (JCP) 90 v 40 wer & Associates 52 e Airways (JBLU) 40 rgan Chase (JPM) 0 r Networks (JNPR) 74	N Neiman Marcus (NME) 90 NetSolve (NTSL) 74 News Corp. (NWS) 52, 70 NextWave Telecom 40 Nissan (NSANY) 52	O OnStar (GM) 52 Oppenheimer 86 Orlando Magic 70	S Samsung 22, 44 Sanford C. Bernstein (AC) 52 SBC Communications (SBC) 84 Sendo Holdings 44 Shasta Networks 74 Siemens (SI) 44, 46 Sony (SNE) 36 Sony Ericsson 44 Sony Pictures Entertainment (SNE) 72 Sprint (FON) 22, 40 Standard & Poor's (MHP) 52, 91 StorageNetworks (STOR) 74 Strong Dividend Income Fund (SDVIX) 88 Sun Microsystems (SUNW) 74 Symbian 44	U UBS Warburg 52 Universal Music (V) 36	X Xerox (XRX) 40
com 36 y Information 62 (KSS) 90 40 Wireless (KYO) 22	N	P Palm Solutions (PALM) 22 Paramount Pictures (VIA) 38 PepsiCo (PEP) 47 PFC Energy 34 Philips Electronics (PHG) 36, 44 Pixar Animation Studios (PIXR) 72 PressPlay 36 Putnam Lovell NBFSecurities 68	S	V Vanguard Group 69, 86 Venture Law Group 74 Verizon Wireless (VZ) 22	Y Yahoo! (YHOO) 82 Yankee Group (RTRSY) 44, 74
12 lason Wood Walker 90 Audio (LQID) 36 ilm 72 (LUKOY) 34		Q Qwest Communications International (Q) 74	S		Z Zandl Group 64 ZDNet Tech Update 12
Enterprises 10		R RadioShack (RSH) 84 Raytheon (RTN.B) 12 RHK 74			

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$59.97/year; Canada: CDN \$94.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Canada Post Publication Mail Agreement Number 40012501. Postmaster: Send address changes to BusinessWeek. P.O. Box 53235, Boulder, CO. 80322-3235.

Glenfiddich

The independent spirit.

Distilled by an independent family company.

Bottled as Glenfiddich, which means "valley of the deer." Matured at its own Highland distillery for a full 15 years — our Solera

Reserve features delicious notes of oak, honey, vanilla spice, fruit and sherry.



AGED 15 YEARS

GLENFIDDICH.COM

STAY FOCUSED, MR. PRESIDENT

As he prepared for his State of the Union address on Jan. 28, President George W. Bush faced perhaps the most daunting set of economic and security issues since the early 1990s. On the economic front, slowing growth was likely to mean weakening consumer confidence and increasing corporate gloom about profits for 2003 (page 28). The threat of war with Iraq, tensions with North Korea, and the likelihood of future terrorist attacks raised the specter of U.S. military action on multiple fronts.

Beyond these very real problems was a growing sense that the Bush Administration was starting to drift and lose focus. The President's economic plan—highlighted by the proposed elimination of the tax on dividends—was controversial but had the virtue of being a bold move supported by many reputable economists. However, the Administration seemed to be falling short when it came time to sell the program to Congress and ordinary citizens. Similarly, the White House appeared to be missing chances to justify the need for a military operation to disarm Iraq.

In many ways, Bush's speech was designed to deal with these problems. He took great pains to lay out his priorities

for the economy, while making his case for the war in Iraq. But he did not fall into the trap of understating the potential difficulties ahead, either militarily or economically.

Still, the State of the Union address is only a starting point. Bush and the other members of his Administration need to build a stronger base of support for his policies. And as the new members of his economic team—John Snow as Treasury Secretary and Stephen Friedman as national economic adviser—are approved, they must become more forceful advocates of the President's plan.

At the same time, Bush may have to show some flexibility on the details of his economic stimulus package. *BusinessWeek* has supported the elimination of the tax on dividends, but there is increasing fear among corporate executives and accountants that the cut as proposed is too complicated to implement effectively (page 33). It may be necessary to substantially revise the proposal to take account of the rich chorus of criticism.

Corporate executives, investors, and workers are looking for Bush to provide leadership and direction. In times of trouble, that's the most important thing a President can do.

SET THE TELECOM INDUSTRY FREE

Since the late 1970s, there has been a relentless movement to dismantle the regulatory apparatus that once controlled much of the U.S. economy. From airlines to telecommunications, industries that once had to answer to federal regulators have been increasingly exposed to the free market.

But if there's one lesson we've learned in the past 25 years, it's that partial deregulation can cause more problems than no deregulation at all. The savings and loan crisis of the 1980s, for example, was greatly exacerbated by the banks' freedom from regulation: Institutions competed with one another by offering higher and higher interest rates on deposits, yet were protected by federally mandated deposit insurance. More recently, freewheeling electricity traders such as Enron Corp. could profit by manipulating the rules in the regulated parts of the electricity market.

Right now, the telecom industry is at the same awkward halfway point. Business telecom services are basically deregulated, but under the Telecommunications Act of 1996, local residential service operates under complicated rules. In particular, the 1996 law forces local phone companies to lease their residential lines at discount rates to potential rivals such as AT&T and WorldCom Inc., with the goal of providing more local competition.

It's time to admit that the odd mixture of regulation and deregulation written into the 1996 act has not worked. The industry is in a shambles after one of the biggest financial bubbles in history burst. Local competition is barely visible,

present mainly where state regulators have stepped in and forced the Baby Bells to lower dramatically the whole rates they charge rivals. Even that move has a big downside. The requirement to offer their competitors lines at super-low rates clearly reduces any incentive for local carriers to upgrade their equipment, since their rivals would reap the benefits without footing any of the bills. It's an economic truism that markets with regulated low prices have low levels of investment.

That's why Federal Communications Commission Chairman Michael K. Powell's move toward more deregulation is a good idea. Powell appears ready to offer a proposal to phase out those big discounts to alternative providers over the next two years and to require competitors to invest in their own switches. In the short run, that might mean that rates for consumers won't fall as fast as they might have. But over the next few years, it could lead to higher levels of investment and more capacity available to households, especially if the capital markets open up. Moreover, unlike 1996, there are important alternatives to land-line phones. In many parts of the country, cellular phones, with low-priced long-distance service, can potentially provide a substitute, especially as coverage improves. And cable providers are signing up more and more telecom customers.

Further deregulation isn't going to solve all of the telecom problems, just as it didn't lead the airline industry to economic nirvana. But it's a good deal better than the alternative.

MARKETPLACE

For Ad Rates and Information
Phone: (312) 464-0500
Fax: (312) 464-0512

Advanced Learning

ABSOLUTELY FREE EVALUATION

Bachelor's -- Master's --
Ph.D. Degrees
Based on life and work experience.
Confidential -- Fast -- Student
Loans. www.arcc.org
800-951-1203

Advanced Learning

Get Your MBA Through Distance Learning

Stigious British University Accredited
der Royal Charter
ie of the World's Largest Distance
arning MBA Programs
Necessary Study Materials Provided
ess To On-Line Facilities
upport From Local Resource Centers and
ident Networking
xible Financing & Payment Plans Available



Today: 800-874-5844
visit www.rdi-usa.com **rdi**

Business/Career Opportunities

EXECUTIVE CONSULTING

Manage local office offering unique
financial services for lawsuit protec-
tion and tax savings. Huge income
in residuals. Local appointments
available. No selling required. Talk to
listing consultants. 24-hr. recording
(800) 653-4497

SIX FIGURES...

Plus Car & Home Benefits
Million \$ Int'l Health Corp. from
Pan. Unlimited Earning Poten-
tial from Your Home Office.
For Business Ownership details, call
800 783-7494

The current SLOW
economy is making
**BIG MONEY for loan
and leasing brokers!**

Business Loans Equipment Lease
**OWN YOUR OWN
BUSINESS LOAN COMPANY**
No experience needed...We support you!

RECEIVE A FREE
MINUTE VIDEOTAPE SEMINAR
FULL COLOR INFO PACKET & BROCHURE

CALL TODAY
800-336-3933
www.viewtlc.com

The Loan Consultants, Inc.

Golf

WINTER GOLF?

An MEE sliding
doors, rigid enclosure
will transform your
golf cart to be as
comfortable as your car

Visit
www.meeinc.com
for information

Distance Learning

DISTANCE LEARNING DEGREE PROGRAMS

California Pacific University
100% Off-Campus. Approved BBA, MBA,
MA, DBA. Programs in Business or Health
Administration at the Masters level. Write:
1017 E. Grand Ave., Escondido, CA 92025
Call 760-739-7730 or 800-458-9667
Visit: **www.cpu.edu**

Business Services

Need a Logo?

mylogo Get a Professional
Custom Designed
LOGO TODAY!
Visa, MC/Amex
Toll-Free: 1-888-869-5646
www.1800mylogo.com

Presentation Tools

CREATE YOUR OWN COMMERCIALS!



www.moviewow.net

Business Software

timeclock software

Stop Spending Too Much on Payroll.

- Fully PC Based Software
- Track Payroll, Attendance,
& Benefits
- Easily Monitor Overtime
- Reduce & Eliminate
Payroll Errors

Complete Systems
As Low As
\$99.95

1-800-456-2622

Free Trial & Brochure Available

Copyright 2002-2003 Forte Systems, All Rights Reserved



Forté
systems

Computer Cables/Accessories

KRISTAMICRO.COM

150 page Catalog!
Visit our website

COLLECTION OF
COMPUTER CABLES AND ACCESSORIES
USB CABLES, CAT 5E, VGA, FIREWIRE, PRINTER,
PS/2, SERIAL, AND MORE.

Key Code: 200

Investment Opportunities

EARN SUBSTANTIAL INCOME!

Split **BIG** Profits
by Locating Foreclosed
Property in Your Area!

✓ Use Our Money!
✓ No Experience Needed!
✓ No Financial Risk to You!
✓ Complete Training Provided!
✓ Unlimited Earnings Potential!

**NationWide
Real Estate
Decorators**

For FREE Info, Call (800)331-4555 x-570

Computer External Drives

ALL THE DATA IN YOUR HAND

Up to 120 Gigabytes!

As featured in BusinessWeek and WSJ

- ✓ Smallest USB external storage device on the market
- ✓ Presentations, movies, music, thousands of pictures
and files at your fingertips in a flash
- ✓ Ideal for professionals and students
- ✓ Carry your work anywhere
- ✓ USB 2.0 blazing speed
- ✓ Backup your files
- ✓ Plug and Play



Wolverine

www.wolverinedata.com

(949) 653-6300

Corporate Discount and Gift Program Also Available



TheHiltonFamily
Hilton HHonors®
Points & Miles

When you're traveling for the big interview, your hotel room shouldn't make you feel small. That's why at Embassy Suites every guest is guaranteed a spa



BusinessWeek

17, 2003

www.businessweek.com

ECONOMY

ACTIVITY
RUNNING
F GAS?

L
YERS

LAW
CHOKED
BACCO
Y

K
ERPT

FIORINA'S
WIN AT HP

ESTING
VOLUME
YOU
T A STOCK

THE GROWTH GAMBLE

With war looming,
President Bush is
also pushing
ambitious and costly
economic changes.
He's banking on
faster growth to
limit future deficits.
Is all this realistic
or reckless?

PAGE 28

#BXBBGDD ***CR LOT 0006A*C030
#LBRLP000097 1#302496 RX0006064



BURLINGAME

BURLINGAME PUB
480 PRIMROSE R
BURLINGAME

FEB - 7 2003



NATIONAL GEOGRAPHIC

Information Systems

How does *National Geographic* take its readers and viewers to the four corners of the globe? With the help of an expert guide called FileMaker® Pro. With its intuitive interface, FileMaker Pro allowed *National Geographic* to create custom databases that help them manage their magazine and television production. Editors can generate contracts for writers and photographers in an instant. Television producers can tr

Carol B. Alim

Director, Applications Support
Information Systems

(and database explorer)

1145 17th Street N.W.

Washington, D.C. 20036-4688

Tel (202) 496-3037

Fax (202) 496-3008

E-mail: calim@ngs.org

modules with a simple browser interface. And international partners can get vital information over the Internet from anywhere in the world. Plus, FileMaker integrates with Microsoft Office and supports XML, JDBC and ODBC. To learn more, take a quick trip to www.filemaker.com or call 800-325-2747. *What's your problem?*



 **Shangri-La** Class

Singapore Airlines presents

SPACEBED

The biggest bed in Business Class.

SpaceBed is being progressively installed on all flights from North America to be completed by June, 2003.

For information, fares and bookings please visit www.sia-spacebed.com





Experience the comfort of the most spacious business class bed in the sky. Raffles Class SpaceBed offers you a new level of luxury with more room to work, relax or sleep. All, of course, while enjoying the inflight service even other airlines talk about.

A great way to fly
SINGAPORE AIRLINES



© 2004 SINGAPORE AIRLINES



COVER STORY

GROWTH GAMBLE

Bush's bold reform agenda will either spark the economy or drown it in red ink

page 28

BusinessWeek

FEBRUARY 17, 2003

THE HP MERGER

An excerpt from a new book about Carly Fiorina's fierce proxy fight

page 70



Cover Story

28 BUSH'S GROWTH GAMBLE

Call it ambitious. Just as war looms, a torrent of new reform plans is flowing from the White House: Sped-up cuts in the tax rate, breaks that will promote investing and saving, a \$400 billion prescription drug benefit, plus plenty more. Some economists wonder where the money will come from to pay for it all. Some pundits wonder how Bush can manage so many initiatives while dealing with Iraq. In the end, if his agenda drives the economy upward, he's a hero. But if it only feeds an expanding deficit, he can kiss a second term good-bye

32 SCRAMBLED NEST EGGS

What Bush is proposing to replace 401(k)s and IRAs

News: Analysis & Commentary

36 THE PRODUCTIVITY MIRACLE

New Economy gains aren't over, the skeptics notwithstanding

38 COMMENTARY: NASA

Give the space agency a new mission

40 COMMENTARY: AOL TIME WARNER

An open letter to Dick Parsons, who has one of the toughest jobs in Corporate America

41 YAHOO: MAKING THE BOUNCE LAST

Will new efforts in broadband and Internet searching yield strong growth over the long term?

42 IN BUSINESS THIS WEEK

Washington Outlook

43 WASHINGTON OUTLOOK

Highway safety chief Jeffrey Runge: The SUV-hater who's making the auto industry nervous

Special Report

44 THE DECLINE OF GERMANY

With a weak economy and little political will to reform, Europe's largest and richest nation is fast becoming Japan on the Rhineland as its influence slips away

50 GERMANY INC.'S GREAT HOPE

Finance & Labor Minister Clement is pushing for reform

53 COMMENTARY: EUROPE

How Germany's fall from grace harms the whole region

Economic Analysis

22 ECONOMIC VIEWPOINT

Tyson: Why Bush's plan for a drug benefits threatens Medicare

25 BUSINESS OUTLOOK

U.S.: Benefit costs are on the rise
Japan: Flirting with recession

Legal Affairs

56 LAWYERS SUING LAWYERS

The acrimonious breakup of heavyweights law firm Ness M... was caused by...success

Finance

58 AN EMPIRE ON THE ROPES

How Ira Rennert, his license yanked by the NASD, built a conglomerate now choking on...

62 KOREAN BANKS' GOLDEN STATE

They reap riches serving small businesses in California

Science & Technology

64 FOR YOUR EARS ONLY

Will technology that "directs" sound to specific points turn a Diego company into a star?



N SMOKE
eco, greed, and
ing at a hot
rm page 56

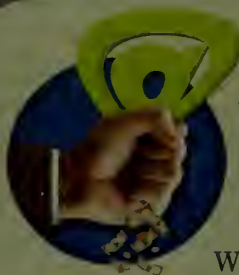


R HERE
argeted sound
waves? page 64

- ▶ Trading volume is a stock clue page 88
- ▶ Yup, a healthy Internet fund page 90
- ▶ How TV's future is unfolding page 92
- ▶ Equanimity and e-filing page 94



SPY VS. SPY
The Predator
and the
Global Hawk:
Dueling
drones page 76



WEB FED
Lots of dot-coms
are profitable,
with many more
set to join the club page 68



BEING GREEN
Memo to Detroit:
Hybrids won't sell
themselves page 80



SLIPPING AWAY?
Schröder's Germany
is sliding into
mediocrity page 44

DEVELOPMENTS TO WATCH

superfast HDTV transmissions; a
trap-on muscle suit; speedy
nochips; sluggish sperm

Information Technology

WILDSTROM: TECHNOLOGY & YOU
New software can help make your
Wi-Fi network harder for hackers
to break into

ELECOMS: HAPPY TO BE HERE
Equipment makers are a lot poorer,
but the survivors are battling back

THE WEB IS CATCHING PROFITS
Over 40% of public Internet
companies were in the black in the
fourth quarter

Excerpt

THE SHOWDOWN AT HP
A passage from Peter Burrows'
Backfire tells how Carly Fiorina
commandeered the Compaq merger

Living Life

WHITE-COLLAR RESERVES
More executives are being called
out, and it's creating new dilemmas
for both them and their employers

The Corporation

- 76 THIS PREDATOR RATTLES RIVALS**
General Atomics' unmanned spy
plane is on the tail of Northrop
Grumman's pricier Global Hawk

Marketing

- 80 COMMENTARY: HYBRIDS**
Hey, Detroit—this time around,
your rollout should be aimed at the
mass market

BusinessWeek Investor

- 87 DIVIDENDS**
Sierra Club funds; dishwasher-safe
humidifiers; city of the big...ice rink;
joint coverage for long-term care
- 88 MARKET MEASURES: VOLUME**
In this first installment in a
new series: Why you need to
watch trading volume as well as
stock price
- 90 A NET FUND THAT'S DOING FINE**
Peter Doyle says he's an
old-fashioned value investor in
tech-fund-manager's clothing

92 TV: PICTURE THIS

Here's what you will need in a new
set as television stations begin the
switch to digital broadcasting

93 RENTERS: ROOM TO MANEUVER

A slow economy has pushed up
vacancy rates

94 SO YOU WANT TO E-FILE

A guide to winnowing the 60 sites
certified by the IRS

95 THE BARKER PORTFOLIO

Newly public insurer WellChoice
has more upside than down

96 INSIDE WALL STREET

Features

- 8 UP FRONT**
- 12 READERS REPORT**
- 14 CORRECTIONS & CLARIFICATIONS**
- 15 BOOKS**
Burrows: *Backfire*
Anders: *Perfect Enough*
Bennis and Thomas: *Geeks and Geezers*
- 97 FIGURES OF THE WEEK**
- 98 INDEX TO COMPANIES**
- 100 EDITORIALS**

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

Updated every business day at www.businessweek.com



Visit the BusinessWeek 50 area of our site for news, investing tools, and more at www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ SPOOKED:

BW's Jim Cooper on why consumers and business leaders are wary to act until Iraq is settled



■ OPTIONS FOR ALL:

Corporate America needs to spread options throughout the workforce, says BW's Aaron Bernstein



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your handheld! Get news from Daily Briefing, S&P data, and more. Visit AvantGo.com to sign up



Find quick links to everything on this page at the Feb. 17, 2003, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/03_07/online.htm

Nice Fixer-Uppers?

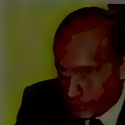
The stocks of homebuilding companies are damaged now because many investors fear the boom is near an end. But these shares could rebound as home buyers appear ready to keep up the pace in 2003



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

European Journal: While Putin pushes Russian business to look outward, he's supporting security bureaucrats who harass, or even expel, foreigners. This won't work



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Q&A: BW's Mara Der Hovanesian explains what it took to make the A-list in our latest Mutual Fund Scoreboard

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

Kenton's Corner: Get rich quick—or invest time, money, and sweat in a partnership?



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Analysis: EMC has overhauled its high-end product line in a move to retake the top spot in data storage



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

Q&A: The admissions director of Notre Dame's Mendoza College of Business on the school's special appeal, and the role of interviews

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

Online Asia: Cisco's intellectual-property suit against a Shenzhen rival is a reminder that foreign outfits were the catalyst for China's tech offensive

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Commentary: The President decries giving minorities any edge in college admissions, but a table tilted his way got him into Yale

The Muscle Car with Brains

Remember wishing
every stoplight
was a starting block?

Remember when
an accelerator
lived up to its name?



The new Infiniti M45
340-horsepower V8
0-60 in 6.1 seconds*
Climate-controlled front seats
Infiniti Voice Recognition
Intelligently priced around \$45,000**
Infiniti.com/M45

Accelerating the future



INFINITI

*0-60 in 6.1 seconds. Actual results may vary. **MSRP. Excludes destination charge, tax, title, license and other available or regionally required equipment. ©2004 Infiniti North America, Inc. All rights reserved. Infiniti and the Infiniti logo are registered trademarks of Infiniti North America, Inc. All other trademarks are the property of their respective owners.

Up Front

EDITED BY SHERIDAN PRASSO

PROXY PARADE

LET'S HEAR IT FOR THE GADFLY

SHAREHOLDER RESOLUTIONS almost never prod companies to take action. In fact, only about 17% of the time, according to the Investor Responsibility Research Center—mainly because such resolutions are nonbinding. Still, tireless advocates of one cause or another rally to pass resolutions year after year, winning majorities, yet rarely getting any joy.

Suddenly, something nearly unheard of has happened: After 18 years of fighting

change, Bristol-Myers Squibb has agreed to abandon "staggered" elections for its board of directors and put all members up for a vote every year, pending shareholder approval. It's the work of one tireless gadfly, 73-year-old Holocaust survivor Evelyn Davis. Of her victory, she says: "Whatever Evelyn wants, Evelyn gets. Sooner or later."

What made the company cave? Bristol-Myers spokesman Robert Laverty says Davis demonstrated that support for the measure was large and growing. It started winning a majority six years ago, garnering 69% in 2002. "We're committed to the principles of corporate democracy," he says. "It's the responsible thing to do."

So, every once in a while, a shareholder—armed with nothing more than the patience of a saint—can actually win. *Louis Lavelle*



EVELYN DAVIS

THE LIST LOOKING FOR LOVE

Online matchmaking sites are growing increasingly popular. Here are some of the biggest:

SITE	SIZE	DOES IT WORK?
MATCH.COM	3.5 million profiles 604,000 paid subscribers	75 e-mails/mo. from committed couples who met through the site
YAHOO PERSONALS	4 to 6 million visitors/mo.	Does not track success
ONE2ONEMATCH.COM	1.1 million profiles	40 to 60 e-mails/mo. from people who write in with "success stories"
MATCHMAKER.COM	8 million profiles	400 e-mails/mo. with success stories
SALON.COM	1.5 million active users	Does not track success

Data: Jupiter Media Metrix Inc., *BusinessWeek*



TALK SHOW "I cannot tell you everything I know, but what I can share with you... is deeply troubling."

—U.S. Secretary of State Colin Powell, speaking about Iraq to the U.N. Security Council

IPO WATCH

FAILURE CAN BE SO REWARDING

INVESTORS STARVED FOR excitement in Japan, take heart: A small company called Ox Information went public on Jan. 28 on a regional bourse for start-ups, opening 37% higher than its listing price of \$1,580 a share. One week later, it was trading at \$5,300.

Why such exuberance? The company's Alarm Control System software claims to calculate with 95% accuracy how likely a company is to go bankrupt. It compiles a score using eight measures—including a ratio of loans-to-monthly-sales, asset turnover, and ability to pay debts. Since 1990, Alarm

Control has crunched the financial data of 95,000 companies. The result: Of 10,500 ranked as risky, 10,000 have gone out of business.

It's now being used by Japanese banks, brokerage and others, and is expected to reach the U.S. by December. (The company predicts a profit increase of 60% this fiscal year, after last year's result of \$850,000 in sales of \$1 million.)

Ox Information founder Shoji Ito says his software can do what Moody's and Standard & Poor's do—but more quickly.

"It takes them as long as two months to issue a report on a company," he says, while Alarm Control can rate a company in 20 minutes. With recession continuing to batter Japan, Ito is in the right business. *Irene M. Kurtz*



MAD AVENUE

BRING ON THE ABOMINATIONS

YOU MAY HAVE SEEN IT during the NFL playoffs: two big-breasted women begin fighting about whether Miller Lite "tastes great" or is "less filling." They end up ripping each other's clothes off. A racier version airing on late-night TV has one suggesting they "make out." (And a bootleg on the Internet is even more salacious.)

Debate over whether the ad debases women has even made it to CNN's *Crossfire*.

Miller Brewing's notorious "Catfight" ad has clearly become the most talked-about TV spot in years. And, *Busi-*

nessWeek has learned, Miller is so pleased with the attention that it's now fast-tracking four similar shock ads in March. New York agency Ogilvy & Mather began shooting them in late January according to industry executives.

Question is, how do you create more buzz than something *Advertising Age* critic Bob Garfield already has termed a "abomination" even by the low standards of beer commercials? Recruitment celeb such as Pamela Anderson, one source



BOOB TUBE: "Catfight"

says. And how do you head off more criticism from those the ad offends? Possibly, several sources say, by making at least one of the ads from the women's point of view. *Gerry Khermour*



It's not how many ideas you have. It's how many you make happen. So whether it's your idea or Accenture's, we'll help you turn innovation into results. See how at accenture.com

Consulting • Technology • Outsourcing • Alliances

accenture

Innovation delivered.

Up Front

LOVE NOTES

THIS YEAR, SAY IT WITH FLOWERS

HEY, ROMEO. SLIPPING YOUR sweetheart some chocolates this Valentine's Day may leave you with a bitter aftertaste. That's because a civil war in Ivory Coast, the world's largest producer of cocoa, is making chocolate more expensive.

One-third of the African coastal nation's cocoa crop has been blocked from harvest and export by rebel **CHOCOLATE:** The price has shot up a September coup. That has driven prices on New York and London markets to 17-year highs of

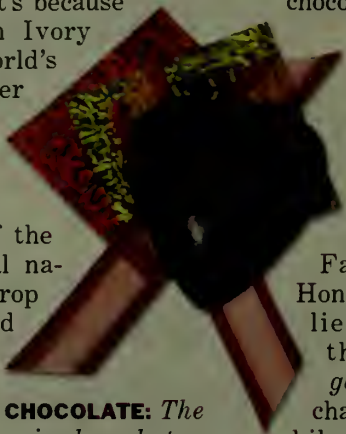
\$2,354 a metric ton—up 76% from a year ago and up nearly 350% from the December, 2000, price of \$674. Nestlé raised chocolate prices by up to 10% in mid-January, although the increase may not have been passed down to consumers yet. Lindt's

chocolates have gone up 6% in the past few weeks as well.

Passersby at the decadent Maison du Chocolat on Paris' rue du

Faubourg Saint-Honoré will be relieved to see that its famous *ganache* is unchanged at \$89 a kilo—at least until Valentine's Day.

Still want to melt a loved one's heart? You might consider roses. *Nassim Majidi*



CAR TALK

COOL STUDE, DUDE

A STUDEBAKER SUV? TRYING to capitalize on the warm, fuzzy feelings baby boomers may have for a name whose glory days were in the Eisenhower era, independent car-maker Michael Kelly plans to introduce a 5,900-pound mega-SUV so macho he calls it an "extreme utility vehicle," or Studebaker XUV, at the Chicago Auto Show on Feb. 14-23.

Pooh-poohing the growing hostility to gas guzzlers, this minitank will get 13 miles per gallon in the city on its V-10 engine. The good news: Kelly says the boxy, Hummer-like vehicle won't roll like narrower SUVs.

The Studebaker name has survived fitfully since the

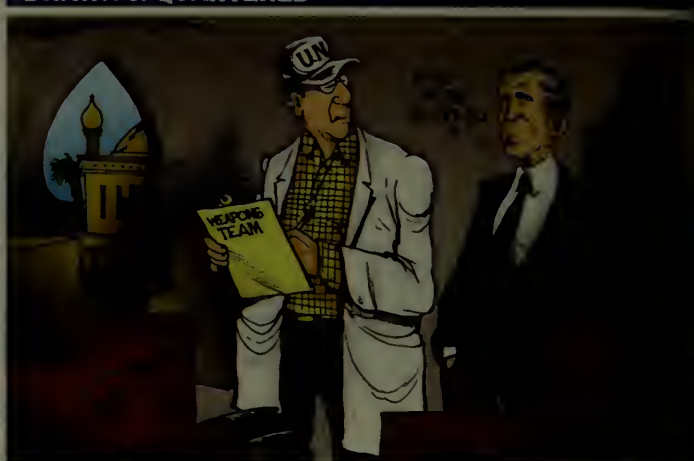
1960s, changing hands a few times and weathering a bankruptcy. Kelly, a Studebaker enthusiast, owned it a couple times and in 2001 took clear title. Last year, his plant in Villa Rica, Ga., turned out 150 Avanti cars modeled on the classic '63 Studebaker Avanti. With the XUV, he hopes to revive the Studebaker name.

At a base price of \$75,000, and with just a dozen dealers lined up to hawk it, the

THE XUV: XUV will be available in the fall—13 mpg for "persons who want to be different," says Kelly. For a hint of the Studebaker lineage, check out the sliding rear roof: The '63 Studebaker Wagonaire had one just like it. Question is, how long will it survive this time? *Joseph Weber*



DRAWN & QUARTERED



THIS WOULD GO A LOT SMOOTHER IF YOU'D STOP HUMMING THE THEME TO FINAL JEOPARDY.

STORM CLOUDS

J&J'S CLOGGED PIPELINE

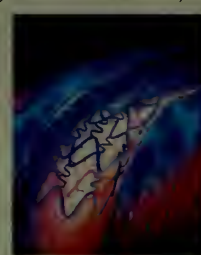
JOHNSON & JOHNSON'S DRUG-coated stent may not be the megahit Wall Street was expecting. The stent, called Cypher, is a small metal device that props open arteries after angioplasty. Unlike others, this stent is coated with a drug to prevent arteries from re-clogging—something that happens in 20% to 30% of patients.

But some on Wall Street are getting the jitters about a perceived delay in its U.S. launch. They had expected Food & Drug Administration approval by the start of 2003. That hasn't happened, so the stent is still

not on the market. One reason: The FDA had raised questions about changes J&J made to the coating process. J&J spokesman David Swearing says the company had always expected approval by April.

If Cypher doesn't come on soon, J&J will have less time

to dominate the market before Boston Scientific launches a competitor, possibly by yearend. Most analysts expect Cypher to generate more than \$1.5 billion in sales this year, but Raymond James & Associates analyst Michael Krensavag



CYPHER: Delays at the FDA?

warns they could fall below \$1 billion—because of the timing, plus doubts about whether J&J can meet demand. The reality, he says, "may not match the fantasy about the thing." *Amy Barry*

THE BIG PICTURE

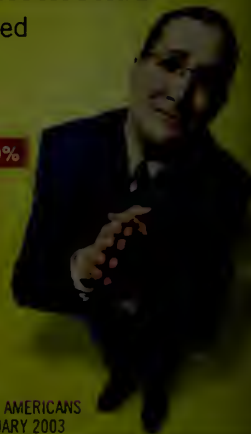
JOB HUNTING THE OLD-FASHIONED WAY

Only a minority of job-seekers used the Net in their last job search. Here's the share that did:



Data: Bernard Haldane Associates

SURVEY OF 703 AMERICANS
RELEASED JANUARY 2003



Polls, surveys, and other items for consideration in this section should be sent to upfront@businessweek.com

The

“STOP
LIVING
DANGEROUSLY”

storage software company.

86% of the FORTUNE 500® rely on VERITAS Software for data backup and recovery.

veritas.com


VERITAS™

Copyright © 2003 VERITAS Software Corporation. All rights reserved. VERITAS, the VERITAS Logo and all other VERITAS product names and slogans are trademarks or registered trademarks of VERITAS Software Corporation. VERITAS and the VERITAS Logo: Reg. U.S. Pat. & Tm. Off. All other trademarks are the property of their respective owners.

EDITOR-IN-CHIEF: Stephen B. Shepard

MANAGING EDITOR: Mark Morrison

ASSISTANT MANAGING EDITORS:

Joyce Barnathan, Frank J. Comes, Robert J. Dowling, Kathy Rebello

ART DIRECTOR: Malcolm Frouman

CHIEF OF CORRESPONDENTS: James E. Ellis

ONLINE EDITOR: Bob Arnold

EDITORIAL PAGE EDITOR: Bruce Nussbaum

CHIEF ECONOMIST: Michael J. Mandel

SENIOR EDITORS: James C. Cooper (Bus. Outlook), Peter Elstrom, Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner

SENIOR WRITERS: Catherine Arnst, Stephen Baker, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss

ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehning, Seymour Zucker (Sr. contributing ed.), Christopher Farrell, Gene Koretz (Contributing eds.)

INTERNATIONAL: Patricia Kranz (European Edition ed.); Michael S. Serrill (Sr. ed.); David Rocks, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe), John Koppisch (Int'l. finance)

ASSOCIATE EDITORS: Robin Ajello, Dan Beucke, Diane Brady, Nanette Byrnes, John Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gerry Khermouch, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers

PICTURE EDITOR: Larry Lippmann

MANAGING ART DIRECTOR: Jay Petrow

SENIOR ART DIRECTOR: Steven Taylor

INTERNATIONAL ART DIRECTOR: Christine Silver

DEPARTMENT EDITORS: Books: Hardy Green. Computers: Spencer E. Ante. E-Business: Timothy J. Mullaney. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowry. People: Susan Berfield. Personal Finance: Lewis Braham, Carol Marie Cropper, Susan Scherrek, Anne Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin. CONTRIBUTING EDITOR: Mark Hyman (Sports Business)

STAFF EDITORS: Jennifer Merritt, Kimberly Weisul

COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Aleta Davies, Doug Royalty (Sr.); Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario

PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keating, Robert J. Rosenberg (Deputy chiefs); Althea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin

ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.); Jamie Elsis, Edith Gutierrez, Ron Plyman (Asst.). Graphics: Joan Danaher (Director); Rob Doyle (Deputy dir.); Laurel Daunis-Allen, Joe Calviello, Alberto Mena, Ray Vella; Eric Hoffmann. Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), Neal Fontana, Nita Le, Rich Michiel, Leo Nietzer, Joseph Rhames

PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne D'Aprix, Kathleen Moore, Andrew Popper, (Assoc.); Sarah Greenberg Morse (Asst.); M. Margarita Eirra (Traffic mgr.); Burt Hughes, Mindy Katzman, Lori Perbeck (Researchers)

EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.). Karen Butcher, Francisco Cardoza, Thomas R. Dowd, Stephen R. Lebron, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Ilse V. Walton (Edit map mgr.), Mark Lang

EDITORIAL TECHNOLOGY: Y. Steve Ben-Ari, Yo-Lynn Hagood, Steven McCarthy, Anoop Srivastava, Craig Sturgis, Mauro Vaisman

ONLINE: Michael Mercurio (Managing ed.), Arthur Eves (Creative dir.), A. Peter Clem, John A. Dierdorf, John Johnson, Will Andrews, Heather Barry, Jaime Beauchamp, Jane Black, Joleen Colpa, Roger Franklin, Brian Hinde, Olga Kharif, B. Kite, Matt Kojan, James Kutz, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Amey Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksanaj

CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad. Boston: William C. Symonds (Mgr.), Faith Keenan. Chicago: Joseph Weber (Mgr.), Roger O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Berner, Pallavi Gogoi. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), David Welch. Los Angeles: Ronald Grover (Mgr.), Larry Armstrong, Christopher Palmeri (Sr. correspondents), Arlene Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. Hof (Mgr.), Linda Himmelstein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O'C. Hamilton, Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.), Rich Miller (Sr. writer); Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. correspondents); Amy Bormus, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Woellert, Catherine Yang, Douglas Harbrecht (Online: Sr. news ed.), Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairbank, Christine Tierney. Hong Kong: Mark L. Clifford (Mgr.), Frederik Balfour, Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Gen Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.), Carol Matlack, Andy Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Ihlwan. Singapore: Michael Shari (Mgr.). Tokyo: Brian Bremner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kuniti

EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager: Barbara Boynton. Communications: Heather Carpenter, Christine Fountaine, Andrew Palladino, Nancy Sheed. Information Services: Jamie B. Russell (Director), Susann Rutledge (Research mgr.), John Cady (Technology mgr.), Fred Katzenberg, David Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summerson

Readers Report

THE NFL: YOU CALL THIS A MODEL?

How long will the insanity last ("The NFL machine," Cover Story, Jan. 27)? Unlike baseball, hockey, and basketball, football needs three teams: offense, defense, and special. Picture an offensive basketball team switching to a defensive team, then switching to a special team to make the one-pointers. And football championships are determined on the result of one game. Picture the World Series being a one-game affair.

In football, the means to an end is mayhem. Picture a base runner in baseball being required to knock out the first baseman, preferably for the rest of the season. In civil life, every football play would be considered assault and battery punishable by a prison term.

Baseball, hockey, and basketball fans sit in comfort. Football fans are expected to weather rain, snow, and zero-degree temperatures and say they had a great time at the game.

Walt Buescher
Oconomowoc, Wis.

If the NFL is a "socialist" organization, as Baltimore Ravens' owner Art Modell so candidly explained, then Cincinnati Bengals owner Mike Brown must be Fidel Castro. The petty dictator of the backwater franchise has the worst record over the past decade of any franchise in any professional sport. He negotiated a taxpayer-financed \$400 million stadium deal from city and county leaders under the threat that he would move his franchise and whatever "economic benefit" it provided to Cleveland (a city that had booted Modell out to make way for an expansion franchise).

Less than a decade later, nearly a half-billion dollars have been sucked out of the local economy. The stadium is

more empty than full on any given Sunday. Meanwhile, the infrastructure the city has rotted as jobs and taxpayers left for outlying counties. If weren't for the bridges, the peasants would have resorted to using rafts to escape across the Ohio River to the booming economy of Northern Kentucky. And the Bengals remain one of the most profitable sports franchises.

Charles M. Corbin
Fairfield, Ohio

The public is not supposed to enhance the bottom line of any business: Customers do that. Here in Minnesota, the Vikings stadium debate continues despite referendums and legislative votes that reject public financing. Be the special machine you claim you are, NFL, but keep your hands out of the public purse. And you, too, Major League Baseball.

Joseph Wright
Bloomington, Minn.

The NFL and the billionaire owners continue to conspire to blackmail San Diego officials into robbing the taxpayers to pay for stadiums. The Chargers are asking taxpayers to cough up \$2 million for yet another stadium. Only a few years ago, taxpayers paid \$100 million-plus to upgrade the stadium—and then had to pay for tickets on empty seats the Chargers could not fill to tune of an additional \$30 million.

Ronald Wells
San Diego

ITALY'S ENVIRONMENTAL SHAME

I hope all Italian businessmen and politicians felt as embarrassed and outraged as I did ("Italy and the Mafia," International Business, Jan. 27). It says a lot about the problem if Ita-

PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carvalho
VP, MARKETING: Patricia Crocker France

VPs, SALES: Mark A. Flinn (Eastern region and BWT), Grant A. G. (Midwest reg.), Robert J. Maund (West reg.), Lou Tosto (Eastern reg.)
VP, INTERNATIONAL/NORTH AMERICA SALES: Rik Gates
VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maraviglia
VP, MANAGING DIRECTOR-ASIA: Alan Lammin
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, CONSUMER MARKETING: Joyce Swingle
VP, BUSINESS DEVELOPMENT: Geoffrey D. Broderick
GENERAL MANAGER, BUSINESSWEEK ONLINE: Peggy White

The McGraw-Hill Companies

BusinessWeek
FEBRUARY 17, 2003 (ISSN 0007-7135) *** 3820

Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948). Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2400. Telex: Domestic 127033; Intl. 2300127033. U.S. subscription rate: 1 year \$59.97; 2 years \$119.97; 3 years \$179.97. Canadian subscription rate: CDN \$84.95 per year; 2 years CDN \$157.95; 3 years CDN \$189.95. Mexico Subscription 1 year U.S. \$135.00, Brazil 1 year U.S. \$150.00, all other Latin America countries 1 year U.S. \$270.00; 2 years U.S. \$520.00. Outside of U.S., Canada and Latin America: U.S. \$190.00 per year. Single copies/back issues, \$9.95. Call 1-800-228-1867 or email: busweek@mcgraw-hill.com. Subscriber Service: 1-800-465-1201, TDD: 1-800-554-1570. Postmaster: Send address changes to BusinessWeek, P.O. Box 5235, Boulder, CO 80522-3235. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Canada Post Publication Mail Agreement Number 40012901.

Registered for GST as The McGraw-Hill Companies, Inc. GST #R12377. Copyright 2003 by The McGraw-Hill Companies, Inc. All rights reserved. Registered in U.S. Patent Office. European Circulation Certificate, McGraw-Hill, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 8800.

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, Chairman, President, and Chief Executive Officer; Kenneth M. Vittor, Executive Vice President and General Counsel; Robert J. Bahash, Executive Vice President; Chief Financial Officer; Frank D. Pengelase, Senior Vice President, Treasury Operations.

PHOTOCOPY PERMISSION: Where necessary, permission is granted to the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$2.00 per copy of each article. Send payment to the CCC. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address requests for customized bulk reprints to BusinessWeek Reprints, 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3148. ISSN 0007-7135/03/0000-0000. PRINTED IN THE U.S.



Dillard's department stores found a real bargain.
Xerox assessed and streamlined their company-wide work
processes and printing needs, saving them \$1.6 million.
There's a new way to look at it.

Learn more: www.xerox.com/learn For a sales rep: 1-800-ASK-XEROX ext. LEARN

XEROX CORPORATION. All rights reserved. XEROX® The Document Company® and There's a new way to look at it are trademarks of XEROX CORPORATION.
is a registered trademark of Dillard's Inc.

THE DOCUMENT COMPANY

XEROX®

NONSTOP TO THE TOP

"If you want to understand how one organization can change the competitive rules of the game for an entire industry, read this book."

—James L. Heskett, Baker Foundation Professor, Harvard Business School and Coauthor of *The Balanced Scorecard*

The Southwest Airlines WAY

Using the Power of Relationships to Achieve High Performance

JODY HOFFER GITTELL

"If you want to understand how one organization can change the competitive rules of the game for an entire industry, read this book."

—James L. Heskett, Professor, Harvard Business School

"*The Southwest Airlines Way* is by far the most comprehensive and insightful analysis of the success of this remarkable company.

The book has scores of suggestions useful to managers in any industry on how to face competitive challenges"

—Jeffrey Pfeffer, Professor, Graduate School of Business, Stanford University

BARNES & NOBLE
BOOKSELLERS
www.bn.com

Readers Report

CORRECTIONS & CLARIFICATIONS

In the "Bond Fund Scoreboard" (Mutual Fund Scoreboard, Feb. 3), the columns of letter ratings for 348 funds—comparing the risk-adjusted performance of each fund against all funds and within the same category—were inadvertently reversed. The tables accompanying "Bond funds: Don't expect a full-course meal" and the ratings in the full Scoreboard of 1,576 funds on BusinessWeek Online are correct (http://bwnt.businessweek.com/mutual_fund/).

The table "Globalization goes white collar" accompanying "Is your job next?" (Cover Story, Feb. 3) should have said Delta Air Lines Inc. contracted out 600 jobs, not 6,000. Accenture says it will employ 4,500 in India and the Philippines combined by yearend 2004; it does not operate in Costa Rica.

"Dividend stocks worth stocking" (BusinessWeek Investor, Jan. 27) should have noted that H.J. Heinz Co. expects to lower its yearly dividend to \$1.08 a share in fiscal 2004, for a dividend yield of 3.2%.

ians must turn to foreign magazines for serious coverage of toxic waste dumping in our own country! The Italian people know about the problem, but there is not enough coverage to generate the outrage necessary to push for changes.

Even if the European Union or the Italian Parliament passes tougher laws, the media ought to make the scandals public and show Italy that those who dump toxic waste are being prosecuted quickly and, if guilty, are held responsible with huge punitive damages. Italy's media tend to focus more on the sinkings of tankers around the world or the withdrawal of the U.S. from the Kyoto Accord rather than denouncing the scandalous dumping of wastes in our beautiful Italian countryside.

Christian Obrad
Lugano, Switzerland

WHAT'S RIGHT WITH A.T. KEARNEY AND EDS

Your story completely mischaracterizes A.T. Kearney Inc.'s position in the management-consulting marketplace, as well as the firm's relationship to Electronic Data Systems Corp. ("Family feuds don't get nastier than this," Legal Affairs, Feb. 10). A.T. Kearney remains one of the most respected names in management consulting. It is the market-share leader for consulting in automotive, consumer products, retail, com-

munications, and utilities. A.T. Kearney has one of the highest client-satisfaction ratings, with a 90% rate of repeat business, and has worked with a number of clients for 25 years or more.

A.T. Kearney and EDS have made substantial progress on successful collaboration—including securing \$6.75 billion in joint pursuits in the past months alone. A.T. Kearney is the high-value-added management consulting firm that can operate as a stand-alone entity with a distinct brand or as part of integrated solutions from EDS.

Tom Ma
Vice-President
Global Communications
Electronic Data Systems

Kathleen Reich
Vice-President
Marketing & Communications
A.T. Kearney Co.
Plano, TX

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archives start in 1991 are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

We prefer to receive letters via e-mail, without attachments. Writers should disclose any connection or relationship with subject of their comments. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in any electronic and print editions.

E-mail: bwreader@businessweek.com

Fax: (212) 512-6458

Mail: *BusinessWeek* Readers Report, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>

(click "Manage Your Account")
For individual subscriptions, corporate subscriptions, and other inquiries.

Phone: (800) 635-1200 Fax: (641) 842-6101

E-mail: bwcustomerservice@neodata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

E-mail: bw_group@businessweek.com

Latin America

Phone: Int +44 1444 475 649

Fax: Int +44 1444 475 506

E-Mail: Businessweek.subs@qss-uk.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

E-mail: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use;

\$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

E-mail: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm

FIRE
ter Burrows
• 296pp • \$27.95

PERFECT ENOUGH
By George Anders
Portfolio • 248pp • \$24.95

TWO CLOSE-UPS OF HP'S EARLY FIORINA

Lewlett-Packard Co. is the legendary corporation that helped spawn Silicon Valley. Ever since humble beginnings in a Palo Alto (f.) garage in 1938, HP has managed to balance outstanding financial performance with engineering excellence, hard work, conservative bookkeeping, and a paternalistic relationship with employees. But by the late 1990s, the egalitarian culture known as "the HP Way" was under assault. HP's reputation as an innovator was quickly slipping as it was superseded by rivals. Sales growth and morale tanked. To jumpstart the moribund company, the board brought in an outside CEO: charismatic Carlton S. Fiorina. Shake things up, he said. The controversial \$11-billion acquisition of rival Compaq Computer Corp. led to one of the biggest proxy fights in corporate history.

For much of last year, the soap opera over the future of HP captivated the high-tech industry. Two seasoned business journalists have written books chronicling the conflict that pitted Fiorina against William R. Hewlett, a philanthropist and the first son of William R. Hewlett, who founded the company with his Stanford University pal David Packard. Both *Backfire*, by *BusinessWeek* computer columnist Peter Burrows, and *Perfect Enough* by George Anders, a senior editor at *Fast Company*, offer fresh insights about the epic battle and about Fiorina's ultimately successful purchase of Compaq.

The authors don't always take the same path in telling their tale. In *Backfire*, Burrows profiles Fiorina and devotes a good deal of attention to her turbulent first two years at HP. In *Perfect Enough*, Anders examines the philanthropic work of the Hewlett and Packard families and spends much time on the Compaq deal. The two have different conclusions. Anders believes Fiorina's HP may have a shot at regaining its faded greatness. Burrows is more

skeptical about the company's future, and he worries that management has lost its special bond with workers.

Burrows recounts Fiorina's life story, from her family's Texas origins and her first marriage to her triumphs and failures at Lucent Technologies, the formerly dowdy AT&T research arm that she helped make into one of the hottest companies of the Internet boom. For Burrows, however, Lucent

provides a cautionary tale about Fiorina's aggressive salesmanship and how that may have helped create an atmosphere where easy loan terms were given to companies with iffy credit. After she left Lucent to take the HP job, Lucent has restated earnings, laid off thousands of workers, and suffered billions in losses.



In *Perfect Enough*, Anders provides a behind-the-scenes account of the battle for HP, putting the reader inside the minds of several key players. It is clear that Fiorina and Dick Hackborn, an HP director, are kindred spirits. Hackborn was a hero at HP, having earlier in his career

pushed the company into the enormously profitable printer business. From the initial discussions of the Compaq deal, both Hackborn and Fiorina were absolutely convinced that acquiring Compaq would help HP grow again.

Anders also explores the Hewlett and Packard families. He details how HP's stock slide affected the foundations that both founders' families created to distribute their wealth. The David and Lucile Packard Foundation, Anders points out, felt compelled to slash the amount of its annual grants from \$600 million to \$200 million.

Today, HP is blowing past its cost-cutting goals, and there's momentum building for the company on Wall Street. Still, it's too early to tell whether the Compaq deal will backfire for Fiorina, or if the company that is emerging is perfect enough. ■

PROGRAM FOR EXECUTIVE DEVELOPMENT

Program dates:

March 17, 2003

July 28, 2003

October 6, 2003

Your next big career move will offer a challenge, with opportunity. A tough economy, increasing competition, new people. Now is the time to prepare for increased management responsibility.

That's the purpose of IMD's **Program for Executive Development (PED)**.

It prepares you for a move into general management positions by giving you a comprehensive understanding of the company and the business environment. It's a unique program that can extend into an **Executive MBA**.

Sign up now for the session starting March 17, 2003. Visit our website today for a full course description:
www.imd.ch/ped

For more information about all IMD degree and Executive Education programs visit us at www.imd.ch



Real World. Real Learning®

IMD is ranked No.1 in Europe in Executive Education overall, and No. 2 worldwide in Custom Programs
Financial Times Global Survey 2002

IMD - International Institute for Management Development
Chemin de Bellerive 23, PO Box 915
CH-1001 Lausanne, Switzerland
Tel: +41 21 618 03 42 Fax: +41 21 618 07 15
E-mail: info@imd.ch

GEEKS & GEEZERS

How Era, Values, and Defining Moments Shape Leaders

By Warren G. Bennis and Robert J. Thomas
Harvard Business School • 224pp • \$26.95

LEADERS ARE MADE, NOT BORN

Having just turned 50, I've suddenly found myself wondering how I got here so fast. Maybe you know the feeling. In your heart, you're still 18, then you peer into the mirror and wonder: Who in the world is that gray-haired person staring back?

But I have no regrets about falling between the cracks of the latest leadership research, found in *Geeks & Geezers: How Era, Values, and Defining Moments Shape Leaders* by leadership guru Warren G. Bennis and Robert J. Thomas. This book looks at two categories of people I'm not: Geeks, who, as the authors define them, came of age between 1991 and 2000, grew up "virtual, visual, and digital." Geezers, whose formative period was 1945 to 1954, were shaped by World War II.

The idea behind this new research is simple: All of us come of age in a particular milieu that shapes us. "Our era determines choices both mundane and profound, from the music we prefer to the things that we long for, the things we take for granted, and much of the emotional coloration of our lives," the authors write.

During the dot-com era, the differences between young and old seemed as stark as the contrast between the music of Dave Matthews and Glenn Miller. The digital set was said to be far more ambitious than were the analog set at the same age. Geeks aspired to "change the world" and "make history" rather than merely make a living.

The authors conducted extensive interviews with 43 subjects, ranging from former Securities & Exchange Commission Chairman Arthur Levitt Jr. (a geezer, of course) to Teach For America founder Wendy Kopp (among 18 geeks). They discovered that there were more similarities among these leaders than differences. The core essentials of leadership remain constant across genera-

tions. More important, the study yielded an unexpected result: a theory that describes how leaders come to be, in whatever era, and that predicts who is likely to become and remain a leader.

Leadership is hardly a new area of research, of course. For years, academics have debated whether leaders are born or made, whether a person who lacks charisma can become a leader, and what makes leaders fail. Bennis, possibly the world's foremost expert on leading, has written two best-sellers on the topic. Generally, researchers have found that you can't explain leadership by way of intelligence, birth order, family wealth or stability, level of education, ethnicity, race, or gender. From one leader to the next, there's enormous variance in every one of those factors.

The authors' research led to a new and telling discovery: that every leader, regardless of age, had undergone at least one intense, transformational experience—what the authors call a "crucible." These events can either make you or break you. For emerging leaders, they do more making than breaking, providing key lessons to help a person move ahead confidently.

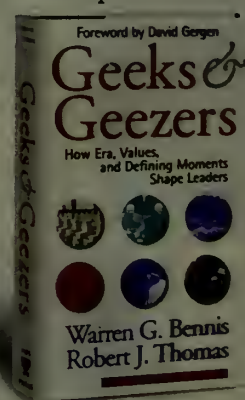
For example, "Geezer" Sidney Rittenberg, whose consulting firm pioneered business ties between the U.S. and China, was jailed as a spy in China in 1949 and spent 16 years in prison, the first in solitary confinement and total darkness. He emerged certain that nothing in professional life could break him.

A crucible need not be harsh or tragic. Video-game expert Geoffrey Keighley's crucible was, by contrast, modest. In second grade, this "geek" converted a microwave oven into a magician's table, put on a top hat, and mesmerized

friends with a magic trick. The wonder and awe in the eyes of the other filled him with a sense of power and uniqueness that Keighley later drew upon to create a video-industry website called GameSlice. He is considered the leading reviewer in the field.

If a crucible helps a person to become a leader, there are four essential qualities that allow someone to remain one, according to the authors. They are: an "adaptive capacity" that lets people not only survive inevitable setbacks, heartbreaks, and difficulties but also learn from them; an ability to engage others through shared meaning or common vision; a distinctive and compelling voice that communicates conviction and desire to do the right thing; and a sense of integrity that allows a leader to distinguish between good and evil.

Sounds obvious enough to be true until you look at some recent failures that show how valid these dictums are.



The authors believe that former Coca-Cola Co. Chairman M. Douglas Ivester lasted just 28 months because "his grasp of context was woeful." Among other things, Ivester demoted Coke's highest-ranking African-American even though the company was losing \$200 million class action brought by black employees. Procter & Gamble Co. executive Durk Jager lost his job because he failed to commu-

cate the urgent need for the sweeping changes he was making. He flunked engaging the people of P&G. These are important lessons in a fascinating book.

It's striking, too, that the authors found their geezers sharing what they believed to be a critical trait—the sense of possibility and wonder more often associated with childhood. "Unlike those defeated by time and age, our geezers have remained much like our geeks—open, willing to take risks, hungry for knowledge and experience, courageous [and] eager to see what the new day brings," the authors write.

As a newly 50-year-old guy, this strikes me as a recipe for a successful life, whether you're a leader or not.

BY JOHN A. BYRNE
Senior Writer Byrne covers management issues.

THE AUTHORS SAY LEADERS UNDERGO AT LEAST ONE INTENSE, TRANSFORMATIONAL EXPERIENCE

The Better Online CRM Solution

Third-party research study of companies that purchased online CRM solutions between March 2001 and February 2002-Topline Strategy Group.



BUSINESSES LOOKING FOR BETTER SALES RESULTS — LOOK TO US.

When UpShot and salesforce.com go head to head, nearly twice as many companies choose UpShot. UpShot is single-mindedly dedicated to increasing companies' sales results. Boosting their revenue with a solution that includes superior forecasting, reporting and analytics, integrated sales and marketing modules, and a fully functional offline capability. Consequently, UpShot has become the leading web-based, sales-focused CRM solution. Want a bigger piece of the pie?

CALL 1.888.224.3720 OR VISIT US AT WWW.UPSHOT.COM/BW TO RECEIVE A COPY OF THE YANKEE GROUP WHITE PAPER, "WEB-BASED CRM: FASTER RESULTS, INCREASED SALES."



Salesforce.com and the salesforce.com logo are marks of salesforce.com, Inc. and are mentioned for identification purposes only. © 2002 UpShot Corp.

BY STEPHEN H. WILDSTROM

tech&you@businessweek.com

HOMELAND SECURITY FOR YOUR WI-FI



Many users of wireless networks ignore basic precautions, but new software will help foil hackers

Over the past year or so, there has been a lot of talk about potential security breaches in wireless networks—everything from terrorists using easily accessed Wi-Fi to launch attacks on vital facilities to hackers sucking out corporate secrets using antennas built from Pringles cans. While there are serious security holes in the design of Wi-Fi, taking some simple steps will overcome them. And new technology due this spring can make both new and existing networks a lot safer.

The concern started last year, when computer scientists discovered serious flaws in Wired Equivalent Privacy (WEP), the security method used both to hide wireless data and to prevent unauthorized network access. It turned out that the “key,” a large number used to encrypt data, could be discovered by analyzing the data that could be collected from a busy corporate network in a couple of hours.

A skilled eavesdropper, perhaps stationed a block or more away using a directional antenna built with a Pringles can, would not have much trouble recovering the key and gaining access. And because changing keys is a tedious manual process, many companies rarely do it, if ever. So, once in possession of the key, an attacker could read traffic for an indefinite period.

Because such an attack depends on capturing and analyzing a lot of data, it's much less effective against relatively lightly trafficked home networks. The real security problem for home users is their failure to take the most basic steps to protect themselves. Most Wi-Fi gear ships with the WEP feature turned off—and most people never bother to activate it. That could allow your neighbors to ride free on your Internet connection and perhaps even read your network traffic. But just setting a WEP password and changing it occasionally will protect your home network from casual snoopers, and most homes

are not tempting targets for serious hack

Home-network and small-office security get a boost this spring when vendors start shipping products featuring Wi-Fi Protected Access. This new software, which also will be made available for downloading to older equipment, replaces WEP. A password will still be needed to connect to the network, but the actual encryption will be done using “keys” that are randomly generated and changed frequently. This should dramatically improve the security of small, simple networks—but only if you download and install the new software.

You should also take some basic precautions with your computers. Windows XP is much more secure than Windows 98 or Me, but only if you set up user accounts with passwords. And it's a good idea to run firewall programs to protect against intruders. At a minimum, make sure that the built-in Internet Connection Firewall in Windows XP is turned on.

If you want to toughen your home or small-office network so it's safe from the teenage

hacker next door—and you don't

mind getting under the hood

a bit—you can get into

trial-strength security

by downloading Defend

from ReefEdge

(www.reefedge.com)

You need to dedicate

an old PC to run it, but

the software is free

and handles up to

five users.

Bigger businesses

have more complicated

wireless security problems

both because of

the quantity of

information they

handle and the value

of the data. Even before the flaws

in WEP were publicized, vendors

of corporate networks were offering

proprietary security enhancements. This approach

protected networks, but at the cost of compatibility:

A notebook equipped with Proxim or 3Com

hardware and software, for example, wouldn't

work on a network that required Cisco System

LEAP security system.

Wi-Fi Protected Access follows the same approach

as LEAP, requiring approval from a computer

separate from the wireless base station

to grant access to the network. But it should

guarantee that gear from different manufacturers

can work together and should be considerably

easier for smaller businesses to install and maintain

than current security solutions.

It's unfortunate that the designers of Wi-Fi

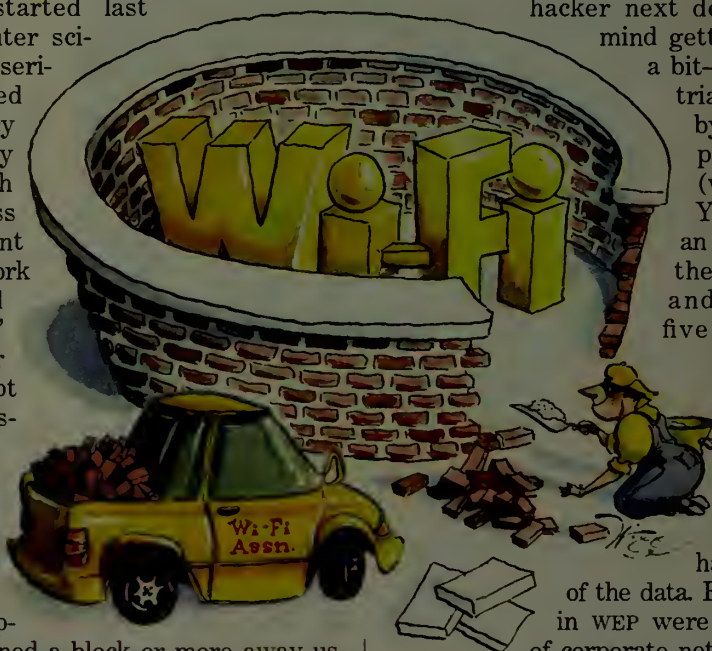
did a lousy job on security, but the problem

has been overstated, especially for home net-

works. With some simple precautions, Wi-Fi

is safe for home or business use. It just requires

little effort on your part.

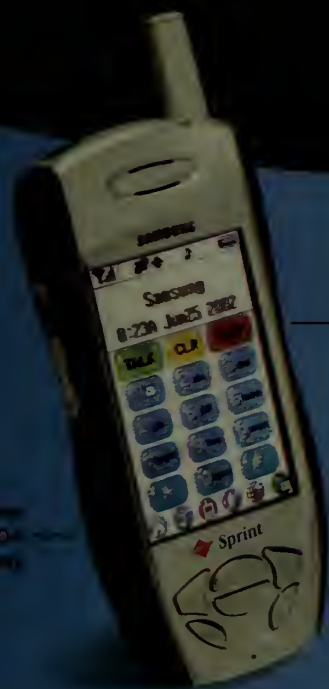


BusinessWeek online

FOR A COLLECTION OF PAST COLUMNS and online-only reviews of technology products, go to Technology & You at www.businessweek.com/technology/

SAMSUNG

DigitAllclout



Advanced
Web Browser

Samsung's Palm Powered™ i330 phone. Now everyone can have a powerful connection.

Know all, see all with this versatile device. It packs 16 MB RAM, a vivid, full-color display and PalmOS® functions into one tool that powers productivity. Access your company email, calendar and contacts with PCS Vision™ from Sprint. Lean and light yet feature-rich, the i330 is advanced technology that advances agendas.

- 16 MB of memory for enhanced storage capacity
- Color screen for clear images and graphics
- Enhanced Internet experience
- Optional camera attachment to capture and store photos

Ready to connect? Visit www.samsungusa.com/wireless or call 1-800-SAMSUNG (726-7864) for information on products and accessories.

SAMSUNG DIGITall
everyone's invited™

DigitAllwhere?

Sprint Store
The PCS Center

city

COMPUSA

You are accountable.

To your shareholders.

And your board,
and your employees,
and your customers.

Who is accountable to you?

Who could be?

Who could bring together
enough talent
to handle a major initiative?

The whole thing
start to finish?

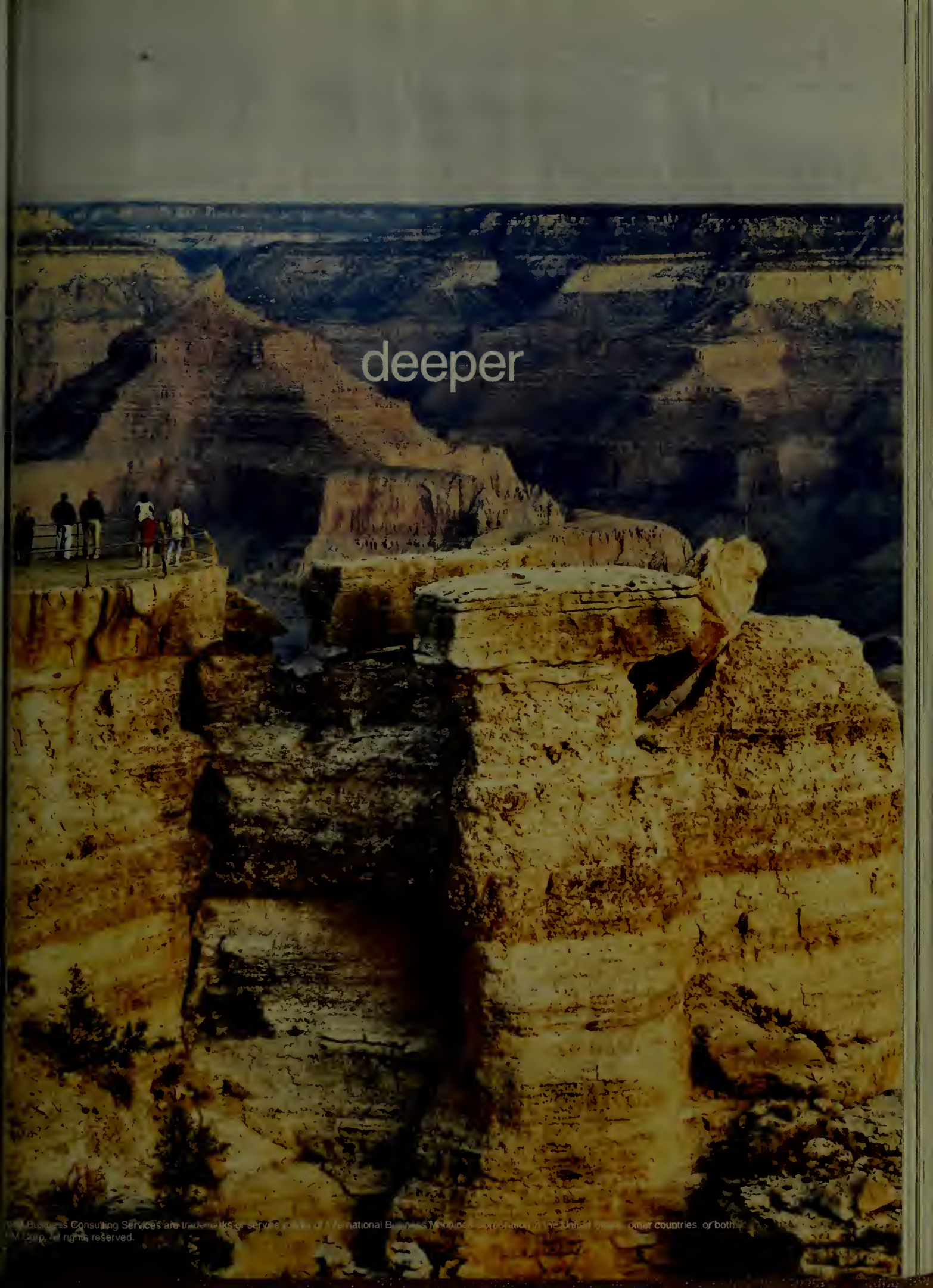
Who would have the depth?

Introducing **IBM Business Consulting Service**

Industry insight. Strategy. Process. Deployment. Start-to-finish accountability. Delivered on-site, outsourced or on-de



ibm.com/bcs

A photograph of the Grand Canyon, showing the layered rock formations and the deep chasm. The word "deeper" is overlaid in white lowercase letters in the center of the image. In the lower-left foreground, a group of people is standing on a wooden walkway overlooking the canyon. The sky is a pale, hazy blue.

deeper

BY LAURA D'ANDREA TYSON

WHY BUSH'S PLAN THREATENS MEDICARE AS WE KNOW IT



NO GAIN:
The President wants to offer prescription drug coverage only to seniors who pick private health plans. That just won't work

In the "compassionate conservative" portion of his State of the Union address, President George W. Bush called Medicare the binding commitment of a caring society. Yet in the few sentences that followed this mellifluous but misleading phrasing, he signaled his intention to launch an assault on the Medicare system.

Medicare currently provides elderly Americans with two kinds of entitlements: the right to a specified set of services and the right to choose among providers offering these services in a traditional fee-for-service setting. Despite his vow that "seniors happy with the current Medicare system should be able to keep their coverage just the way it is," President Bush's plan represents a profound threat to both entitlements. Behind his soothing language, the President is signaling his willingness to break Medicare's fundamental promise of providing the same coverage to all beneficiaries, regardless of income.

Instead, he proposes to add new Medicare prescription drug benefits but to limit them to beneficiaries who select private health-care plans. In other words, seniors dissatisfied with the current Medicare system because it does not include prescription drug coverage would not be allowed to keep their current Medicare coverage. Rather, they would be forced to choose among private health-care plans that provide prescription drugs but might well not provide access to the other Medicare services they currently receive at the same prices and levels of quality. Nor would there be any guarantee that such plans would offer beneficiaries unrestricted choice among providers. Indeed, the federal employee health benefits system on which the Bush approach is based suggests that Medicare's entitlement of choice among providers would be seriously eroded.

Bush's plan reflects two conflicting political realities: growing pressure to provide senior citizens with prescription drug coverage and the implacable opposition of the pharmaceutical companies to the reimbursement rate, or price-control process used to contain costs in the current Medicare system.

There is a flaw in the President's compromise solution, however. Absent a generous subsidy, private health plans already resist offering adequate and affordable drug coverage to the elderly because those most likely to choose such coverage are precisely those most likely to incur significant drug costs. President Bush's proposal gives private providers the option of skimping on other Medicare services to cover the costs of adding prescription drug benefits.

Competition among private health plans lies the core of the President's scheme to reform Medicare. Private plans would be allowed to compete with one another and with the government program. To foster such competition, the government would offer beneficiaries a choice between participating in the traditional Medicare program and buying private insurance plans approved by the government for Medicare services, with the government paying a percentage of the premium. In theory, such competition could encourage more cost-sensitive decision-making by both providers and users. Providers could become more efficient by competing for Medicare beneficiaries and dollars. And consumers could be encouraged to become more cost-conscious in their use of Medicare services if they were allowed to pay lower premiums by choosing cheaper plans.

But for such competition to foster efficiency rather than to compromise quality, all of the plans granted permission to compete for Medicare beneficiaries would have to be required to offer the same set of benefits, guaranteeing that competition revolve around differences in price and quality, not differences in coverage. Bush's proposal clearly violates this condition.

Even a carefully constructed proposal to add competition to the Medicare program would not do much to ease Medicare's long-run financing gap. Medicare's critics imply that its costs are out of control because of bureaucratic mismanagement and the excessive generosity of its benefits package, but the evidence is at odds with both interpretations. Two factors feed rising Medicare costs: the aging of the population and the fact that health-care spending, driven by strong demand for health-care services and technological breakthroughs, is rising faster than the overall economy.

Medicare faces a future financing gap even if its per capita costs continue to grow at about the same pace as per capita private health-care spending. President Bush's promise of an additional \$400 billion for Medicare over the next decade will not fill this gap, let alone fund a meaningful drug benefit.

Soon after coming to Washington, President Bush rejected Democratic proposals to dedicate a share of projected budget surpluses to Medicare. Now, these surpluses have disappeared, largely as a result of the President's tax cuts. Bush's plan to inject more competition into Medicare will undermine its twin entitlements, but won't make up for the missing resources.

Laura D'Andrea Tyson is dean of London Business School.



DO YOU KEEP ALL YOUR
OLD BUSINESS CARDS.
THAT SO YOU REMEMBER
WHERE ALL YOUR 401(K)S ARE?

you've moved on. But what about your money? Fidelity Rollover Express is an easy, simple way to put yourself in charge of your retirement savings. Work with an experienced retirement consultant, call, click, or visit Fidelity today. Because you're not just invested. You're **personally invested**.SM

FIDELITY ROLLOVER EXPRESS

EASY ROLLOVER PROCESS
EXPERIENCED RETIREMENT SPECIALISTS
MORE INVESTMENT CHOICES

CALL A FIDELITY RETIREMENT SPECIALIST TODAY

1.800.FIDELITY

FIDELITY.COM

88 INVESTOR CENTERS





Struggling with new corporate governance requirements?

You need answers. At Morrison & Foerster we offer straight-forward and practical advice on how to negotiate the maze of new rules and regulations. We advise our clients that by taking prudent action now, companies can realize significant benefits — bolstering shareholder confidence, improving public perception, and reducing the risk of securities litigation and SEC investigation.

New rules and regulations will be old news soon enough. On the other hand, good corporate governance will always be timely. Don't struggle — simply be prepared.

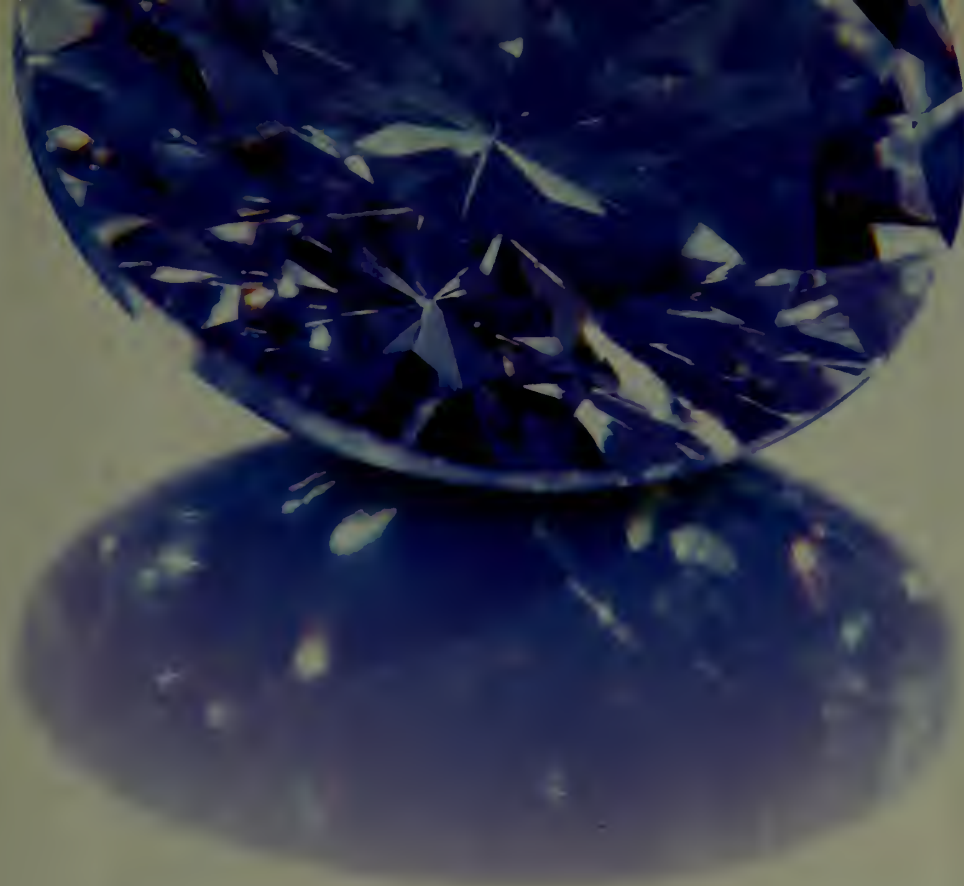
Visit www.mofo.com for the latest legal updates on corporate governance issues.

M O R R I S O N & F O E R S T E R L L P

Lawyers for the global economySM

MoFo

on the web at www.mofo.com



What's it worth?

In today's business climate,
what has value is less clear than ever
before...all the more reason for values to
take on even greater importance.

At Atlas, we built our company on the
values of integrity and quality in providing
customer solutions.

The core of what made us a world leader in
our industry now serves as a foundation
for a full range of business solutions.

What is the value of values? A lot.

Because values based on
integrity, quality and solutions are

integrity | quality | solutions

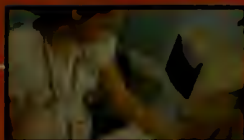
the currency of the future.

1-800-847-6683



global relocation • benefits • recruiting • logistics • travel

Create healthcare solutions
so well thought out,
patients don't have to
think about them at all.



Information Solutions
Supply Solutions

At McKesson, we offer solutions that enable healthcare providers to deliver the best possible care. From healthcare supply solutions that facilitate the timely delivery of medication, to automation and information solutions that define the very future of our industry, we're committed to reducing costs and enhancing the quality of patient care. For our 24,000 employees, it's a chance to be a part of something that ultimately offers peace of mind to millions of people and their families. For you, it's the ability to make a real difference by doing what you do every day. That's the Power of You.

McKesson Corporation offers a wealth of opportunity for individuals with a desire to make a difference in providing industry-leading, integrated healthcare services and solutions. Individuals with the passion to be a part of our entire continuum of patient-focused care. It's you and McKesson—empowering healthcare. Visit mckesson.com/careers for more information.

THE POWER OF **YOU**

MCKESSON

Empowering Healthcare

www.mckesson.com/careers

As an equal opportunity employer, McKesson Corporation unites the talents and contributions of all to advance the power of healthcare.

JAMES C. COOPER & KATHLEEN MADIGAN

BOBBING STATS THAT EVADED THE RADAR

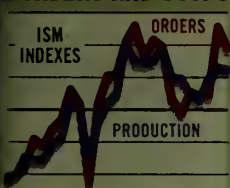
The employment cost index shows companies struggling to curb benefits

U.S. ECONOMY

Investors, economy watchers, and the media spent a lot of time picking over the details of the dismal report on fourth-quarter gross domestic product. But they largely ignored a government report on labor costs that will have a far greater effect on the economy in 2003 than last quarter's growth rate.

True, the Commerce Dept.'s report that real GDP grew at only a 0.7% annual rate was not welcome news. Consumer spending slowed, as did inventory accumulation, while exports fell outright. The meager gain in output came from higher government expenditures, a small increase in business investment in equipment, and outlays for new housing.

BUYERS SEE GAINS IN ORDERS AND OUTPUT



JAN. '01 JAN. '03
PERCENT REPORTING IMPROVEMENT
Data: Institute for Supply Management, Global Insight Inc.

Growth is accelerating again in early 2003 (chart).

But since most economy-watchers were busy digesting the GDP report immediately after its Jan. 30 release, they paid little notice to the simultaneous release of the Labor Dept.'s employment cost index (ECI), a quarterly accounting of what businesses shell out for wages, salaries, and benefits. Ignorance in this regard will not be bliss. The data show that companies are struggling to rein in their compensation costs, and rising expenses will be a continuing challenge for corporate cost-cutters in 2003.

THE EMPLOYMENT COST INDEX showed that total compensation in private industries rose 0.7% in the fourth quarter, or 3.2% for the whole year. That was the smallest rise in compensation in six years.

But the top-line number masked a sharp split between the wages and salary component and the benefits category. Wages and salaries rose 2.7% in 2002, the fastest pay raise in eight years. The slowdown was widespread among occupational groups, although health-care workers saw a severe drop in salary gains. Their

pay raises shrank from 4.9% in 2001 to 3.5% in 2002.

While companies were able to hold the line on wage growth, they had less success on benefits. Company perquisites rose 4.7%, not much less than the 5.1% gain in 2001. And benefit costs will probably rise an additional 5% or so in 2003, given the trends in health-care costs, pension funding, and mandated benefits.

Right now, benefits account for nearly 30% of all compensation, and the fastest growing perk is health care (chart). Health insurance costs rose 10.2% in 2002. Although Labor cautions that its data on health benefits are not as reliable as the overall numbers on benefits since its survey sample is smaller, the health-cost rise in 2002 was the largest in 11 years. Worse still, Mercer Human Resource Consulting LLC reports that employers expect health-insurance costs to rise another 14% in 2003.

WHAT'S BOOSTING BENEFIT COSTS



GROWTH WAS ALSO RAPID for pension costs. The stock market slide reduced the market value of existing pension funds. As a result, many companies must make greater contributions to replenish the money promised to existing and future retirees. Economists at Morgan Stanley estimate that the Standard & Poor's 500-stock index companies will have to come up with some \$40 billion to cover their current pension shortfall, even if their 2003 investment returns average 5%.

Companies will also face larger bills for mandated benefits, which are included in the ECI. State governments, faced with a collective \$25.7 billion budget shortfall this year, are raising fees paid by companies. In particular, rates on workmen's compensation and unemployment insurance have been hiked by some states.

Faced with a rising tab for perks, companies will look for other ways to save costs. The most obvious choice will be wages and salaries, but right now, surveys indicate salaries will rise, on average, between 3.5% and 4% in 2003. Keep in mind that, with the jobless rate at about 6%, the amount of slack in the labor markets is low by historical post-recession standards, and highly skilled, highly productive workers are still in demand.

Productivity gains will help both companies and workers. While such growth this year is sure to be

Business Outlook

slower than 2002's rapid rise, it should be solid enough to allow increases in both pay and profit margins (page 36). Plus, job growth should begin to pick up later this year, lifting overall personal income.

Even without job growth, household buying power ended 2002 on a strong note. Real aftertax income in the fourth quarter rose 5.9%, the fastest annual pace since 1984 (chart). Wages and salaries rose by 1.7%, recouping their dip in 2001 when the recession hit payrolls. But what largely boosted overall income was a drop in tax payments. Personal taxes and fees fell by 15.5% last year, with more cuts on the way. That will provide another lift to income growth, probably by the second half of this year.

UNTIL THEN, THE ECONOMY must create some momentum on its own so that companies can spread out some of their labor costs over a broader base of production and sales. The latest data offer cause for some cautious optimism on the industrial sector while also showing that consumer demand is holding up well.

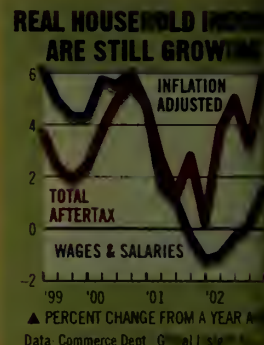
The industrial activity index of the Institute for Supply Management stood at 53.9% in January. While that was down from December's 55.2% reading, the index was above 50%, a sign that manufacturing is beginning to mend. In fact, the ISM said the January level was consistent with 4% growth in real GDP.

The latest readings on demand and output were

very encouraging. The new-orders index stood at 59, just below the 62.9% in December. And export demand increased for the second month in a row, hitting a three-year high of 55.6%. The nation's purchasing manager's index for manufacturing rose in January, which suggests the Federal Reserve's reading on industrial production creased in January as well. The ISM's separate January survey of nonmanufacturers showed evidence of fast growth in that sector, too.

Consumer spending may show more muscle this quarter. January vehicle purchases totaled an annual rate of 16.2 million, not far below the 16.5 million pace of the fourth quarter. And weekly surveys of store sales in January show gains from December.

The extent to which consumers keep spending will depend mostly on their aftertax income growth. That's why the trends on wages, salaries and benefits will play a leading role in the recovery's future. The good news is that pay raises are likely to stay at least modestly ahead of inflation. But until the recovery kicks into a higher gear, companies will struggle to balance how much they pay in wages against the amount they have to shell out for benefits.



JAPAN

ANOTHER RETURN TO RECESSION?

Japan's economy has suffered three official recessions in the past decade. Now it is flirting with No. 4, as the modest recovery that was evident in the first three quarters of 2002 stalled at yearend.

Recent surprisingly weak data on industrial production, unemployment, and household spending suggest that fourth-quarter real gross domestic product, to be reported on Feb. 14, declined, and prospects for the first half of

2003 look dim. Continued deflation and the depressing effects of banking and industrial reform are smothering demand by consumers and businesses, while the threat of war in Iraq is hitting exports.

Exports, which had fueled solid growth in industrial production earlier last year, are slowing. Industrial output fell sharply at yearend, pushing last year's production down to a 15-year low. A

U.S.-led rebound in exports will be crucial to Japan's first-half performance, but Iraq is clouding the U.S. outlook as well.

Meanwhile, domestic demand will be going nowhere. Many companies are restructuring at the expense of new investment, and they are slashing costs by eliminating jobs, cutting capacity, and moving operations to China and elsewhere in Asia.

All this is hard on households. In December, consumer confidence

and spending plunged, amid a record 5.5% unemployment rate and a 0.3% drop in wages, including a big decline in bonus payments. Given the economy's latest stall, joblessness could exceed 6% this year. Many workers are simply dropping out of the labor force, given the increasingly poor job prospects.

Policy decisions in coming months will be crucial in Japan's three-year battle against deflation. December consumer prices, excluding fresh foods, fell 0.7% from the year before. The Bank of Japan's actions to date have pushed the growth rate of the monetary base to 20% annually, but bank lending continues to shrink at a 4% clip. Much will depend on Prime Minister Junichiro Koizumi's choice for a new BOJ governor, expected soon.





MAKE EVERY EMPLOYEE A CFO.

Only PeopleSoft Financial Management Solutions deliver real-time visibility and control to every level of your enterprise.

PeopleSoft Financial Management Solutions make every employee financially accountable. Every employee has visibility into their own financial world within the global enterprise. With embedded cost controls, online procurement, and real-time alerts, every employee is empowered to make the right decisions. And your CFO can achieve the results he is counting on.

Learn more by visiting us at www.peoplesoft.com/financials or call 1-888-773-8277.

Customer Relationship
Management

Supply Chain
Management

Financial Management
Solutions

Human Capital
Management

Application
Infrastructure

PeopleSoft®

**BUSH'S SWEET
PLANS WILL SP
THE ECONOMY-
OR DROWN THE
NATION IN RED**

During the 2000 campaign, Democrat Al Gore would plod through debates by attaching the term “risky scheme” to practically everything GOP contender George W. Bush advocated. Voters tuned out what many felt was a crude attempt to demonize a politician who earnestly insisted he was “a different kind of Republican.” Ever since, average folks and pundits alike have struggled to get a handle on what Bush meant by that. Is he an Establishment swell like his father, imbued with pragmatism and a sense of *noblesse oblige*? Or is he a feisty Sunbelt Republican, driven by both a conservative ideology and a desire for political combat?

Cover Story

On Feb. 3, Bush emphatically answered the question by rolling out a 2004 budget that is replete with ambitious and controversial reforms. Despite Yale, Harvard, and summers at the family compound in Kennebunkport, Me., he is a committed Reagan Republican who seeks revolutionary change—and is willing to run huge political risks in the drive to scale back the federal government’s reach.

Bush’s budget blueprint is a testament to supply-side econom-

GAMBLING GROW



ON
TH

ic theory, which posits that big cuts in marginal tax rates will spur long-term growth and eventually wipe out any revenue shortfall. So despite a record \$300 billion deficit and red ink that will linger for the duration of his term, the President has unfurled a striking agenda. Make that striking and staggeringly expensive. Because Bushonomics is built around \$3 trillion in long-term tax cuts and a big boost in national-security spending, Democrats and GOP budget hawks are bringing back a telling description of the Gipper's fiscal formula to characterize the current President's plan: They call it "a riverboat gamble."

Certainly, it is nothing short of breathtaking. Bush is proposing \$1.46 trillion in new tax reductions—matching his 2001 tax cuts. He seeks elimination of taxes individuals pay on dividends and an end to the inheritance levy—big steps toward a system that exempts most investment from the tax man's bite. He talks of reforming Medicare to boost competition while adding a new \$400 billion prescription-drug benefit for seniors. He calls for a huge expansion of tax-sheltered private savings plans. And in an echo of Reagan's New Federalism drive, Bush would shift to the states control of Medicaid and Head Start—signature programs of the Democrats' Great Society.

As recently as December, the President's advisers were debating over how much money his new economic plan should devote to income tax cuts vs. tax reform built around cutting dividend taxes. He opted for both. The decision swelled a \$300 billion tax package into a \$694 billion megaplan and has raised deficit alarms in Washington and on Wall Street. But in Bushdom, what's surprising is how all-fired surprised everyone is by the sweep of Bush's ambition. "Left to his own devices," says one Texas chum, "he's inclined to throw the long bomb."

Conventional wisdom in the capital holds that a leader on the brink of war with Iraq would dramatically throttle back to avoid distractions. One might think this especially true, given the hard time Team Bush has had selling its rationale for that war. Not until Bush's Jan. 28 State of the Union address and a powerful Feb. 5 U.N. Security Council presentation by Secretary of State Colin Powell did the Administration begin to effectively address weak Allied support for ousting Saddam Hussein.

But instead of clearing the decks to focus on global crisis management, Bush has done the opposite: He's proposing a profusion of midterm reforms that, if passed, would not only dramatically transform economic policy but also hack away at the role of Washington by shifting power to the states. "The President is willing to take the risk of leading to bring about real reform," says Jay P. Lefkowitz, director of the White House Domestic Policy Council. "Even while you're trying to win the war on terrorism, you have to be prepared to win the peace."

Of course, there's a fine line between the grand gesture and reckless abandon. Bush's strategists are hoping a quick victory in Iraq will give the President a needed lift in opinion polls and pro-

vide, in turn, a new slug of political capital to spend on audacious vision. But if the war doesn't go as quickly smoothly as planned—particularly if there is an oil shock that causes the economy to sink—the consequences Bush could be severe.

For starters, an overburdened President could find it tough to do the personal arm-twisting needed for such controversial agenda items as the dividend cut and Medicare



BETTING THE WHITE HOUSE

George W. Bush is juggling a war with Iraq and a bid to revive economy. While some

TAXES

The President's audacious 10-year, \$1.46 trillion tax cut is running into a buzz saw of opposition. The highlights: accelerating tax-rate reductions scheduled for 2004 and 2006 and costly tax incentives for investors. The Bushies say their tax cuts will lift the economy over time. But Democrats and GOP moderates question the cost and the efficacy as short-term stimulus.

DIVIDENDS

Bush's \$385 billion proposal to eliminate taxes on dividends has sparked cries of class favoritism. Many economists think that taxing consumption, rather than savings and investment, will eventually stifle growth. But since high-income taxpayers do most of the investing and saving, the White House is widely seen as favoring the wealthy. The proposal almost certainly will be scaled back.

SAVINGS

The Administration wants to create two new tax-free accounts, allowing workers to put aside up to \$15,000 a year on top of their existing company-provided accounts. White House economists say these incentives will spur private saving. But the plans may just lead people to transfer funds from taxable to nontaxable accounts. And some pension experts say that with fewer employers pushing retirement accounts, savings may not rise—but still, some form of the proposal will likely pass.



haul, to cite just two. Already, there are signs that the normally well-oiled White House machine is straining under the pressure. Both the launch of the Bush tax plan and his on-again, off-again mention of a still-vague Medicare reform measure were greeted by a surprising degree of Republican skepticism. And with so many balls in the air, adds independent pollster Thomas Riehle, president of the Reid U.S. Public Affairs, "the big risk is that [Bush]

never sells anybody on his commitment to any of them."

Indeed, it's one thing to flood the zone on Capitol Hill with a spate of bold reforms and quite another for a war-distracted White House to marshal the resources for passing them. Some of the President's earlier Big Ideas, such as private Social Security investment accounts and his original vision for school reform have either bitten the dust or been substantially modified by Democrats. One risk the

President obviously runs now by unleashing his second reform wave is that rather than demonstrating vision, vigor, and resolve, a heap of failed initiatives will become a testament to scattered focus and political impotence. Another is that by focusing more on long-term economic goals than short-term stimulus, the economy continues to remain sluggish late into this year or beyond.

MARINES IN KUWAIT: A QUICK WIN WOULD GIVE BUSH POLITICAL CAPITAL TO BURN

Bush's political advisers think they will avoid this gloomy scenario. Thanks to a successful midterm election strategy, Republicans now command both houses of Congress. And rather than viewing the looming war with Saddam as a massive downer, White House überstrategist Karl Rove thinks a quick and decisive U.S. victory could provide propulsion for the conservative agenda. That would mean some Bush reforms now seen as politically dicey could gain support as he rockets up in the polls.

"If the war goes well, the President will have enormous political capital to spend on his domestic agenda," says James A. Klein, president of the American Benefits Council, which represents large employers and administrators of health and pension plans. "And if it goes badly, he'll want something else to talk about."

But perhaps the larger risk, in fiscal-policy terms, isn't that Bush fails in his charge up Capitol Hill. It's that he succeeds too well, muscling many of his new programs to passage without the funds to pay for them over the long haul. The 2004 budget shows that the Administration not only faces the prospect of a \$300 billion shortfall in 2004 but could see deficits totaling more than \$1 trillion by the end of the decade. "We're looking at a revenue hemorrhage at the same time the baby boomers start to retire," warns Robert Greenstein, executive director of the liberal Center on Budget & Policy Priorities.

Of course, a central tenet of Bushonomics is that enacting permanent changes in marginal tax rates and reducing the tax burden on investment capital will boost the long-term growth potential of the economy from the current consensus forecast of 3% to 3.5% a year. If that happens—or a resumed productivity surge kicks in (page 36)—tax revenues would again rise and the deficits would again shrink back to manageable levels. In other words, growth, not higher taxes, could be the solution to America's deficit woes.

Trouble is, some economists worry that the latest round of tax incentives won't rebuild the nation's broken-down revenue en-



sharply pare their midterm agenda, the President has Washington by unleashing an ambitious set of conservative reforms that rival those of the Reagan Revolution.

MEDICARE

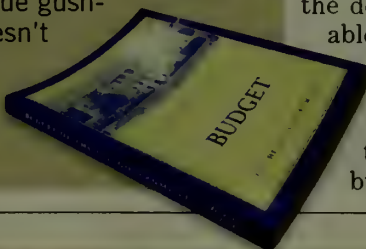
The President's proposed prescription-drug benefit program for seniors is already creating heat. At the same time, Bush wants to give cost-conscious HMOs a big role providing care. But Congress is likely to hand a drug benefit to those who stick with traditional fee-for-service Medicare—or avoid cost-saving reforms altogether.

MEDICAID

Bush wants to shift more responsibility for the government health program for the poorest Americans to the states. He would give governors \$12.7 billion in federal money and much more leeway to restructure the program—but only if they agree to accept more of the financial burden. Antipoverty advocates worry that this could prompt some states to sharply limit care.

BUDGET

The new Bush fiscal plan shows deficits for at least the next five years. The White House hopes its tax cuts, including new savings and investment incentives, will boost long-term growth, producing a revenue gush—eventually, balanced budgets. But if that doesn't happen, the Supply-Sider-in-Chief risks breaking the bank, diverting billions needed for retiring boomers, and scuttling his vaunted transition to Social Security accounts.



gine. Here's why: Much of the '90s tax-revenue gusher was propelled by an overheated stock market and frenetic tech spending. But with the market stone-cold after the Big Bust, techdom still saddled by overcapacity, and CFOs compelled by newly aggressive regulators to use real profit numbers vs. the confectionary kind, there is reason to wonder whether revenues can return to anywhere near pre-boom levels. That may help explain why so much of the new economic plan—the dividend-tax exclusion and some of the pension and capital-gains breaks—seem designed to get investors investing again and the stock market sizzling.

Unless that happens, Bush's \$3 trillion in out-year tax cuts could eat a large hole in the federal nest egg needed to fund the Baby Boom retirement wave, not to mention the estimated \$1 trillion required for the shift to a semi-private Social Security system. Taken as a whole, the President's new reform vision "is as bold an initiative as I've seen," marvels Robert L. Bixby, executive director of the Concord Coalition, which advocates balanced budgets. "It's quite a gamble."

Democrats, who have often been flustered by Bush's fancy footwork in the past, are entering the new budget battle bravely insisting that the President has finally drawn a losing hand. They warn that the Administration's high-

rolling fiscal strategy will eventually cause interest rate spike and stifle long-term growth, and that will vacuum the cash needed to pay for vital domestic programs, from education to health care. "Bush's new budget should be written in red ink," fumes Senator Joseph I. Lieberman of Connecticut, a Democratic Presidential contender. Adds North Carolina Senator John Edwards, another leading Democrat and potential rival for the White House: "It is enormously irresponsible."

One reason Democrats are so steamed is a genuine fear of the fiscal stakes in Bush's gamble. But the other is the concern that by pressing so many reforms at once, he'll increase the odds of ramming some to passage. "You don't have to [everything] to move the debate to the right," notes Arthur Hernandez, a political scientist at St. Mary's University in San Antonio, Tex. Bush's full-court press "puts the Democrats in the position of negotiating" on a broad front.

Bush's Democratic critics, moreover, worry that more is going on here than just letting a thou-

SCRAMBLING AMERICA'S NEST EGGS

Tax breaks to encourage savings. Most economists love the idea, and Republicans have made them a central plank of their economic policies since the 1980s. Now, George W. Bush is pushing a sweeping set of proposals that could fundamentally alter the way almost all Americans save and plan for retirement. If adopted, they would also exempt most future investment profits from income taxes. Here's what he proposes and how it could play out:

What is Bush's plan to boost and simplify savings?

The proposal takes a welter of tax-favored individual savings programs and boils them down to two. To replace Individual Retirement Accounts, a worker could put up to \$7,500 a year (\$15,000 for a couple) into a retirement savings account (RSA) that can't be

touched until age 59. For college, medical, emergency, or other savings, each person could put \$7,500 a year into a lifetime savings account (LSA), which can be tapped at any time. Neither account offers an up-

front tax deduction for contributions. But a saver would never pay taxes on earnings from either account.

For workers, the Bush plan would sweep all 401(k)-style retirement plans into one new account. The employer retirement savings account (ERSA) would resemble today's 401(k): Workers could save \$12,000 a year in pretax dollars, as they can now, and pay taxes when withdrawing funds in retirement.

Will these tax carrots increase savings?

The Administration thinks so. Officials say they've addressed several major barriers that have limited the appeal of tax-favored savings plans in

the past.

Families may be more willing to commit funds to LSAs because they can tap them in a crisis. The new ERSA will make 401(k)-style plans cheaper and more attractive for employers. And raising IRA limits from \$3,000

\$7,500 will encourage financial institutions to promote the new accounts. "We have to eliminate disincentives and create a culture of people saving for the future," says Peter F. Olson, Assistant Secretary for the Treasury Secret

SAVINGS AT WORK

Percent of middle-income* workers who own retirement savings accounts

401(k) ONLY	IRA ONLY	IRA PLUS A 401(k)	NO RETIREMENT ACCOUNTS
30%	12%	9%	49%

* Annual individual income of \$30,000-\$60,000

Data: Employee Benefit Research Institute

flowers bloom. The big fear of als is that if Bush's tax cuts act as an economic elixir, De-atic domestic spending priori-will bear the brunt of the ensu-crunch. Ultimately, Bush's egists "want to starve the t," says Brookings Institution omist William G. Gale.

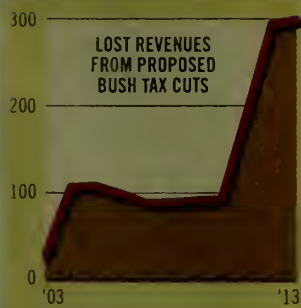
uring the polarizing years of the t Gingrich revolution, conserva-s talked openly of "defunding Left." But as a politician who

styles himself as the un-Newt, Bush is willing to shower billions on education, AIDS research, and a handful of other high-profile priorities while proposing massive tax cuts and watching the deficit grow. "It's all guns and butter," says Jeff Lemieux, senior economist at the Progressive Policy Institute, a moderate Democratic think tank. "Of course, most of the butter is going to Republican constituencies."

Case in point: the Bush tax strategy. The

BUDGET BUSTER?

Bush's proposed tax cuts will slash revenues, sparking sharply larger deficits. The Administration says higher growth will result, bringing the budget into balance fairly quickly. But critics fear big deficits could plague the U.S. well into the next decade.



▲ BILLIONS OF DOLLARS
Data: Treasury Dept.



▲ BILLIONS OF DOLLARS
Data: Office of Management & Budget

President is calling for \$1.46 trillion in cuts over the next decade. On top of Bush's 2001 cut and a \$123 billion stimulus plan in 2002, that makes him the biggest tax-cutter in U.S. history—far outstripping even Reagan.

If enacted, Bush's latest proposals would move the nation toward consumption-based taxation, which many economists believe boosts long-term growth. The plan includes a repeal of the taxes individuals pay on corporate dividends and a speedup of rate reductions enacted in 2001, as well as a big expansion of tax-free savings programs. Nearly all Ameri-

for tax policy.

Yet there's no evidence that tax breaks inevitably (or automatically) lead to lasting changes in savings behavior. In the 20 years since 401(k)s were invented, for example, personal saving has declined from 10% of income to less than 4%. Financial incentives for saving have had less impact than social forces—such as easy credit—and economic trends.

middle- to lower-income—who don't have pensions. But those families already get a big tax break: They can take an immediate deduction for every dollar they put into an IRA. Replacing that instant reward with a deferred tax break—money withdrawn from RSAs in the future wouldn't be taxed—isn't likely, say critics, to reduce the long slide in IRA participation, from 16.6% of taxpayers in 1986 to 2.7% in 2000.

The other force that nurtures nest eggs is employer pressure. Workers are 2½ times more likely to save via employer-sponsored plans, such as 401(k)s, than they are on their own. The Bush plan simplifies 401(k)s but also makes it

ditch pensions. But the new ERSAs will eliminate some of the rules that linked caps on executives' contributions to the participation rates of lower-paid workers. The result: less incentive to promote ERSAs to the rank and file.

What will be the fiscal impact of the President's plan?

At first, the Treasury Dept. expects to gain revenues from IRA owners who choose to switch to RSAs. To make the switch, an IRA holder must pay tax on any past deductible contributions and untaxed earnings. Even if less than 5% of the \$2 trillion in IRA assets are moved, Treasury projects tax payments

LOSE NOW, GAIN LATER *Bush's plan replaces the instant deduction for IRA contributions with a tax break at redemption*

ly, most of the new tax breaks o to households that convert ex-counts to LSAs—moving money a pocket to another without o overall savings. In the longer mpting investment income from ould make saving more appeal-igher-income families with ex- But creating new saving eans breaking spending a hard job for most Americans.

h's plans help baby boomers for retirement?

ew RSAs are targeted, Olson the 50% of workers—mostly

easier for companies, especially small ones, to bypass pensions altogether.

Today, small-business owners can't get major tax breaks for their retirement without creating a company savings plan and encouraging all workers to participate. Under Bush's system, entrepreneurs and their spouses could save \$30,000 a year without having to provide a pension plan for employees. "This could be the beginning of the dismantling of employer-sponsored retirement," warns Brian Graff, executive director of the American Society of Pension Actuaries.

Corporate America isn't likely to

of \$18.7 billion—a nice cushion for Bush's budget through 2006.

Then the picture could change: As tax-free accounts come to dominate the retirement scene, Treasury's collections on investment income will plunge. In two decades, economists at the Urban-Brookings Tax Policy Center estimate, more than half of households' financial assets would be sheltered from taxes—costing the Treasury more than the \$50 billion it expects to lose each year from exempting corporate dividends from tax. That's a steep hurdle for these proposals to overcome.

By Mike McNamee in Washington

cans would be able to shelter every dime of their investment income from taxation, either by shifting funds to tax-free accounts or by taking advantage of new breaks for dividends and capital gains.

Passing the Administration's \$694 billion plan is by no means assured—at least in its current form. R. Glenn Hubbard, chairman of the White House Council of Economic Advisers, estimates that as much as 40% of the cost of the Administration's proposal would be offset by higher economic growth. But skeptics abound in both parties. With Hill Democrats strongly opposed to Bush's tax cuts, the balance of power is held by moderate Senate Republicans who worry about the size of the package, its impact on the deficit, and whether it would provide much stimulus to the economy. Indeed, the Administration estimates that only about \$29

THE IRAQ FACTOR *A long or messy war, with an attendant oil shock, will deliver a direct hit to Bush's plans*

BUSH'S JAN. 28 STATE OF THE UNION SPEECH AND COLIN POWELL'S FEB. 5 PRESENTATION TO THE U.N. BEGAN TO ADDRESS WEAK ALLIED SUPPORT

billion of tax relief would kick in over the next eight months, when some contend it is needed most.

And while Bush will fight hard for his dividend plan, Hill aides say the proposal is likely to be sharply cut back. A possible compromise: capping the amount of tax-free dividends at, say, \$1,000 or exempting 30% of such income.

Bush's tax-free savings proposal has also come under fire. Under the measure, Americans would pay taxes up front, but not on their earnings on money put in two new "super IRAs." Critics contend that the plans will mainly let wealthier Americans shield more from the Internal Revenue Service. Others worry that, despite the ballyhoo, the new savings vehicles may not even achieve their goal of boosting private thrift. Why? Much of the money invested in such accounts may simply be shifted from taxable accounts. And because the plan encourages nest eggs outside of employer-based plans, many small-business owners may ditch their company retirement programs, leaving workers in the lurch.

Still, the savings proposals could be political winners for Bush. They enjoy widespread support on Capitol Hill. Most taxpayers, however much or little they save, will stand to gain from the plans. And by virtually exempting investment income from taxes, the tax-shielded accounts advance Bush's grand cause of tax reform.

Prospects are dicier for the painful business of controlling runaway Medicare costs. The White House wants to encourage seniors to shift from traditional fee-for-service Medicare into private managed-care plans. But key lawmakers, including Senate Finance Committee Chairman Charles E. Grassley (R-Iowa), insist that those who stay in old-style Medicare also get a drug benefit.

Taking another page from Reagan, Bush would fundamentally remake the relationship between Washington and states. He is moving to shift greater responsibility for such programs, such as health care and housing, to govern. That would give states more flexibility in shaping their programs, but at a price: Governors would bear most of the burden of future cost increases.

While the overall Bush budget reduces spending for social antipoverty programs—for instance, it scales back housing and health care for poor kids—there is largesse for a hand

Chemical Weapons Leaving Al-Musayyib



of high-profile social causes. The aim is to showcase the President's compassionate side. The biggest winner is a \$15 billion initiative to combat AIDS in Africa and elsewhere. "They are looking for things that provide a little cover for doing this very conservative agenda," says Trinity College political scientist Diana Evans. "They'll talk about initiatives that appeal to suburban moms."

There's good reason for Bush to be concerned about suburban women and other swing voters. His job-approval ratings have been in steady decline over the past year. Some 60% of Americans say he's not paying enough attention to the economy, according to a Jan. 3-Feb. 2 Gallup Poll. And just 41% of respondents in a new Ipsos-Reid survey say they will definitely vote to reelect Bush, down from 54% in the first quarter of 2002.

By historical standards, Bush's 60% approval rating would be the envy of most modern Presidents. But mindful that his father tumbled from a stellar postwar peak to reelection defeat just a year later, Bush is not about to leave anything to chance. After unleashing a storm of new policy initiatives and his third tax-based economic growth plan in three years, Bush reckons that no one will ever be able to question whether he has "the vision thing" or is trying to end Americans' economic squeeze.

But this demonstration of concern via sheer volume of proposals carries one of the highest potential price tags in political history. It's a gamble that could well propel George W. to a second term. It could also commit his successor to years of dreary digging out from a deficit hole.

By Richard S. Dunham, Howard Gleckman, and Leanne Walczak, with Mike McNamee and Alexandra Starr, in Washington



COMPLETELY CONNECT THE START



TO THE FINISH.

.NET connected software from Microsoft quickly connects all aspects of your business. Align your operational systems and sales systems, and your business can work, react, and think as one. .NET connected software from Microsoft seamlessly ties all your data, devices, systems and business processes together, from factory floor to sales floor. For more information, go to microsoft.com/connectedcompany **Software for the Agile Business.**

Microsoft®

THE ECONOMY

PRODUCTIVITY'S SECOND WIND

Why this growth engine still has a lot of oomph

Is the productivity miracle that powered the New Economy gasping its last breath? It may have seemed so on Feb. 6, when the government was expected to report that productivity growth ground to a virtual halt in last year's fourth quarter. And plenty of people on Wall Street and in Corporate America have all but given up on seeing the rapid gains of productivity that the U.S. witnessed in the late 1990s.

A word of advice to those gnashing their teeth over productivity: Relax. Predictions of its demise are greatly exaggerated. One bad number doesn't make a trend. Since productivity is tied to fluctuations in economic growth, it's no surprise that it flattened out in the final three months of 2002 as growth in gross domestic product abruptly slowed to an annual rate of just 0.7% from 4% in the third quarter.

By the same token, it should also come as no surprise that productivity will bounce back. The real question is to what level? And there's every reason to expect that it'll return to a healthy clip. The deep cost-cutting that helped propel gains last year will likely continue for at least a while. What's more, companies are continuing to make better use of the high-tech gear they purchased in the boom years. That should help keep productivity growth this year at a respectable 2% or more, says Chris Varvares, president of consultants Macroeconomic Advisers.

Over the long term, the outlook is equally upbeat. The main reason: Rapid improvements and falling prices for computer and communications technology—which have persisted through the tech-spending bust—will continue to help companies get more work done without adding to the payroll. Fueled by the revolution in microelectronics, the long-term trend for growth in nonfarm business productivity is probably between 2% and 2.5%, according to several productivity experts.

Sure, that's not as fast as the 2.6% pace during the New Economy boom

from the end of 1995 through mid-2000—and nowhere near the 5.6% peak seen most of last year. But it's far better than the 1.4% average during the protracted productivity slump from 1973 through 1995.

These aren't just abstract numbers. Over 20 years, a one percentage point gain in annual productivity growth produces roughly a 30% increase in output per hour—and raises living standards by an equivalent amount.

A few economists are even more bullish. J. Bradford DeLong, of the University of California at Berkeley, contends that the long-term trend in productivity growth is 3%. That's why worrying about the recent volatile swings in productivity numbers is just so much wasted anxiety. Productivity normally slows in the second and third years of a recovery as companies become more confident about the economic outlook and take on more workers.

Moreover, that's also about the time the gains from cost-cutting rounds start to peter out. Or, as Chief Financial Officer Karen M. Hogue of Federated Department Stores, the owner of Bloomingdale's and Macy's, told analysts on Jan. 16: "The low-hanging fruit



ne and, in fact, the medium fruit is
 "t this time around, many compa-
 haven't yet put away the pruning
 rs, meaning more productivity gains
 d. Most have little choice but to
 tinue to do whatever cost-cutting
 it takes to maintain profit margins
 amid weak sales. "That will help
 keep everybody's feet to the
 fire," says Martin N. Baily,
 chairman of the Council of
 Economic Advisers under
 President Clinton and now an
 economist at the Institute for
 International Economics in
 Washington.

The good news is that there's
 more than old-fashioned penny-
 ching at work. Much of the current
 is a delayed payback from heavy
 tech investment during the late
 90s. Companies are learning to use
 technology that they've already
 ight to enhance efficiency and im-
 ve productivity. "It's only when you
 nge the processes that you get the
 ductivity payback," says Cisco Sys-
 s Inc. CEO John T. Chambers. From
 o's experience, he says the greatest
 off doesn't come until seven to nine
 rs after an investment is made. He
 ks that if customers learn to make
 use of technology, productivity could
 w 3% to 5% annually.

The experience of many companies
 rs out Chambers' views. Industrial
 ntenance products distributor W.W.
 inger Inc., for instance, found that it

and Giovanni L. Vi-
 olante of University
 College London
 found a wide gap be-
 tween what they
 called "frontier tech-
 nologies" and what
 was actually being
 utilized by many
 companies. If any-
 thing, that gap has
 gotten larger follow-
 ing the capital-spend-
 ing bust, suggesting
 that corporations
 have plenty of room
 to boost productivity by purchasing
 equipment with the latest technology.

Of course, it won't happen unless
 companies step up and buy the gear.
 "We can't limp along with low invest-
 ment indefinitely without paying the
 price on productivity," says former Fed-
 eral Reserve Governor Lyle Gramley,
 now a senior economic adviser for
 Schwab Capital Markets.

Luckily, there are signs of an upturn
 in tech spending. The Commerce Dept.
 reported on Jan. 27 that business in-
 vestment in inflation-adjusted terms rose
 for the first time in nine quarters in
 the final three months of 2002. Spending
 on information processing equipment
 and software, the lifeblood of the New
 Economy, climbed to its highest level
 in two years. "The tide is rising," says
 economist James K. Glassman of J.P.
 Morgan Securities.

And thanks to the continued steep

Some experts believe companies have yet to exploit all the efficiencies of the 1990s tech revolution

progress translates directly into benefits for computer buyers and the economy as a whole. "We are decreasing our budget," says Dave Kaercher, an information systems leader at retailer Best Buy Co. "But we're expanding our capabilities. Our money goes a lot further."

What's also impor-
 tant for long-range productivity is the
 pace of innovation. The biggest gains
 come from whole new ways of doing
 things, not just incremental improve-
 ments. On that score, the steep falloff in
 venture capital could be construed as
 worrisome. VC disbursements to U.S.
 companies fell from \$29 billion in the
 first quarter of 2000 to just \$4 billion in
 the last quarter of 2002, according to
 the MoneyTree Survey by Pricewater-
 houseCoopers, Venture Economics, and
 the National Venture Capital Assn.

But that drop reflects much more the
 crazed venture-capital boom of 2000
 than any deep hole that startups have
 now fallen into. Disbursements of ven-
 ture capital, in fact, are running as high
 as they were in 1997, which was con-
 sidered pretty good at the time. Put
 another way: Plenty of money spent at
 the peak of the venture-capital boom
 went for pure fluff. In fact, Stewart Al-

SETTLING DOWN TO HEALTHY GAINS

Annualized growth rate of nonfarm business productivity

SLUMP	THE BOOM	THE LAPSE	THE REBOUND	THE BREATHER	THE LONG-TERM TREND
1994-1995 Q4	1995 Q4-2000 Q2	2000 Q2-2001 Q3	2001 Q3-2002 Q3	2002 Q4	
-4.4%	2.6%	0.7%	5.6%	-0.5% to 0.5% (est.)	2% to 2.5% (est.)

Data: Bureau of Labor Statistics

ook a while before new business man-
 agement software bought during the
 boom produced any returns. "We're
 getting a lot smarter about the things
 we [bought] a few years ago," says
 Tim Ferrarell, senior vice-president
 of enterprise systems.

What's more, plenty of cutting-
 edge technology is already in ex-
 istence, yet not widely used. A
 paper published
 last year by Ja-
 son G. Cummins
 of the Federal
 Reserve Board

fall in prices of microprocessors and
 other high-tech equipment, companies
 are getting more bang for their IT
 budgets. Microprocessor prices in De-
 cember were 50% lower than they were
 a year before, after accounting for im-
 provements in the quality of the prod-
 uct. Juri Matisoo, vice-president for
 technology of the Semiconductor In-
 dustry Assn. in San Jose, says that the
 world's top semiconductor engineers fig-
 ure they have at least 10 and perhaps
 15 years left in which they can continue
 doubling the circuit density of chips
 every 18 months. That relentless

sop, general partner with venture capi-
 talist New Enterprise Associates, ar-
 gues that today's sober atmosphere is
 better suited to building solid compa-
 nies that will last.

Any way you cut it, productivity
 growth is likely to slow sharply this
 year from its lofty levels of most of last
 year. But that's hardly the end of the
 world—nor of the New Economy gains.

By Rich Miller in Washington and
 Peter Coy in New York, with Rob Hof
 and Peter Burrows in San Mateo,
 Robert Berner in Chicago, and bureau
 reports

Remember when the little Sojourner rover chugged over the red soil of Mars? It was the summer of 1997, and pictures from the mission rekindled America's romance with space exploration. Compare that excitement to the public's indifference toward NASA's space shuttle. Until the Columbia and its seven crew members met their terrible end, how many people actually were aware that the spacecraft was in orbit—or cared much what it was doing?

For those of us weaned on model rockets and sci-fi adventures to distant planets, space really was the last great frontier. Sadly, the reality has fallen far short of our dreams. Intrepid explorers were supposed to be mining asteroids by now, or scouting Martian landscapes for signs of life—not just pedaling exercise bicycles to study the effects of weightlessness a couple hundred miles above the Earth. Yet as the 1997 Pathfinder mission to Mars showed, space can still stir the restless human imagination.

While the Columbia tragedy makes the spirit ache, it also raises painful questions. Were safety precautions adequate? Were the relatively trivial scientific pursuits worth the human risks? Is America on the right trajectory in space? The answer is no, on all three points. Here is how the U.S. can refocus its space program and inspire the nation again:

- Retire the shuttle and rethink the space station. Yes, these craft are incredible feats of engineering and the crews are brave—even heroic. “Without people like them, we would have never left the cave,” says Neil de Grasse Tyson, director of the Hayden Planetarium in New York. But there's not much reason to keep the space station in orbit, except as a destination for the shuttle, and the shuttle has little utility but to ferry astronauts to the station. “The talents of these incredible people are being wasted,” says Rick N. Tumlinson, president of Space Frontier Foundation. “I want to see them going to Mars.”

- So go to Mars, Saturn, and the moons of Jupiter—and do it now. The

COMMENTARY

By John Carey

HOW TO MAKE THE SPACE PROGRAM SOAR AGAIN



DREAM AND DISASTER

The moon as seen by the Columbia crew; makeshift memorial in Clear Lake, Tex.

technology and the dollars aren't there yet to send astronauts, but robots are willing and able. Imagine the excitement when a spacecraft named Cassini gets to Saturn, in July, 2004, and later sends a probe parachuting through the thick atmosphere of Titan, the planet's largest moon. Also next year, sons of Sojourner are scheduled to scamper over Mars, searching for evidence of water—the key ingredient for extraterrestrial life. And NASA has ambitious plans for a ship to orbit three giant icy moons of Jupiter—Callisto,

Ganymede, and Europa. We need to make sure these missions—and more—are fulfilled.

- Then, improve spacecraft to send humans deeper into space. “It's in man's nature to want to explore,” explains John Creighton, chief technical pilot for Boeing Co. and a former space shuttle commander. “If manned exploration stopped, we would 90% of the funding.” But we need better, safer, cheaper ways to ferry people into orbit, such as a mini space plane that would piggyback on a rocket and glide home. And for deep-space voyagers, we need new propulsion systems. If NASA stopped pouring more than \$7 billion per year into the shuttle and space station, we could fund development of spacecraft with small nuclear reactors, or engines that spew out ions, or sails that can soar on the solar wind. That would speed trips to Mars and other planets, reducing the need to study the long-term effects of weightlessness in a space station.

- Tap the ingenuity of U.S. companies. The Pathfinder was a bargain, at \$265 million, because the mission team used many off-the-shelf components. Now, companies are doing everything from building cutting-edge space probes to experimenting with rocket designs. It's essential to inject these ideas more quickly into government programs, says John Higginbotham, chairman of venture-capital firm SpaceVest.

The Columbia tragedy could be a brave beginning, in which NASA's existing budget is consecrated to visionary ideas. “We're on the verge of a second Space Age,” says James W. Benson, chairman of SpaceDev Inc., a Poway (Calif.) company that recently built a suitcase-size satellite to study gases and dust in space. Clearly, the human species will never stop dreaming of exploring the stars.

With Otis Port in New York and Stanley Holmes in Seattle



© 2001 Acura, a division of Honda Motor Co., Ltd. All rights reserved.

OnStar Corporation. May 2001.

JOY.

STICK.



Introducing the 6-speed, 260-hp Acura CL Type-S. Happiness is a new, crisp-shifting manual transmission. Instant acceleration from a powerful 3.2-liter VTEC™ engine. Race-tuned suspension. And a leather-trimmed interior with available OnStar® service. Sure beats video games, huh? Call 1-800-TO-Acura or visit acura.com.  **ACURA**

DEAR DICK: IT'S TIME TO TAKE YOUR MEDICINE

Richard D. Parsons
CEO, AOL Time Warner Inc.
75 Rockefeller Center
New York, NY, 10019

Dear Dick,

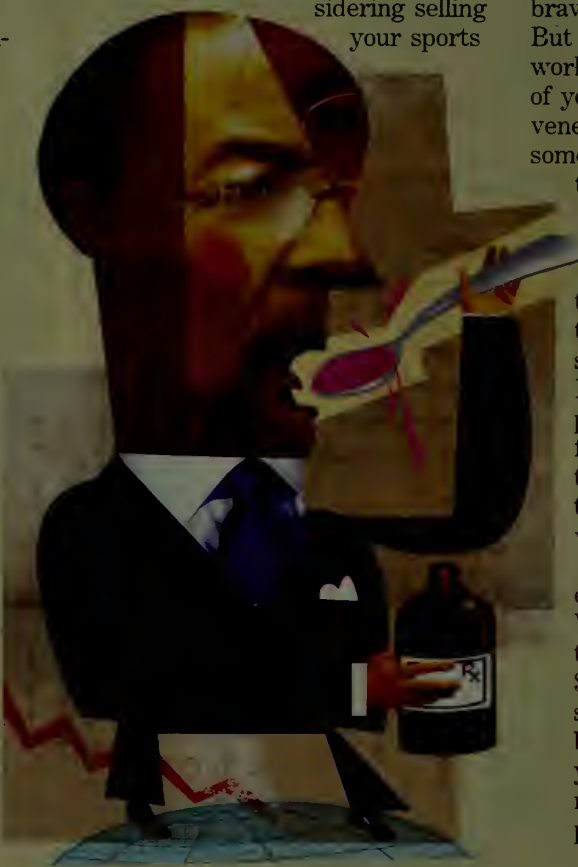
First things first: Nobody has a tougher job in Corporate America, let alone in the struggling media industry, than you do. Having to announce an all-time record loss of \$99 billion for last year is nobody's idea of a good time, nor can it have been easy to divulge the new problems in the cable unit related to how ad revenues have been booked. On top of that, you still face the overhang of federal investigations into accounting at your America Online Inc. unit, not to mention broader questions about whether it has a future. And behind all of that, there's the debt—expected to hit \$28 billion this year, which is strangling your chances for future growth. Given the pile-up of problems, it's hardly surprising that your share price has languished below \$15 for months. Let me commend you for showing a cool exterior in this firestorm.

Trouble is, it's going to take a lot more than keeping up appearances to get out of this jam. And sorry, Dick, but telling investors they need to be patient because 2003 will be a "reset" year isn't going to cut it. To be blunt, you have to decide—very soon—where you think AOL Time Warner's future lies. It's O.K. to be a broad-based media-and-entertainment company, but you're in too many unrelated businesses that don't add anything to each other. And the sheer size of your conglomerate is dragging you down. Investors need to know what businesses you plan to build your future around—and which you want to dump.

Frankly, Dick, I don't envy you. You clearly need to fix America Online. More on that later. But first, to get a handle on that monstrous debt, you've got to make some extremely tough choices. You've said you want to lower your debt to \$20 billion by 2004. To get there, you'll need to use virtually all of your free cash flow—some \$3 billion in 2003—to pay down debt. Then, if you pull off a successful initial public offering of your cable business

(a big if), you could wipe out \$4 billion more. That's a good start, but you'll need to do much more. Ultimately, it would be ideal to get your debt down to under \$15 billion to ensure a good credit rating and lure back investors:

That's why, painful as it sounds, you're going to have to say goodbye to some top-notch businesses. There's no other way around that ticking debt bomb. It's good news that you're considering selling your sports



AOL Time Warner

teams, half-interests in cable channels Court TV and Comedy Central, and AOL's book-publishing arm. That should bring in around \$3 billion, though it may take time to find buyers in this market. Now, you're down to \$18 billion—better, but still not enough.

I know it sounds crazy, but you should sell New Line Cinema—the movie studio that has reaped huge box-office returns in the past two years from the *Lord of the Rings* and *Austin Powers* franchises. Selling New Line while it's red hot could possibly get you \$5 billion. Bingo: \$13 billion in debt. True, you'd be giving up

one of your most prestigious assets, not to mention some \$400 million in cash flow. But look at it this way: You'd still have a larger movie studio—Warner Bros. Inc., with roughly \$800 million in cash flow.

That makes selling New Line the best of a bad set of choices—better than selling magazines or music, for example. Sure, one's in a recession and the other is struggling with the brave new world of digital downloads. But that's no reason to bail. Your world-class magazine group is the core of your company's identity. You have venerable titles. Plus, you've done some innovative launches. So ride out the ad recession and hang on to the glossies.

The other keeper is music.

Even though the prognosis for the piracy-paralyzed music industry is dour right now, Warner Music Group, which includes Atlantic Records and Elektra Records, has posted revenue and cash-flow gains for four straight quarters. And these established labels should thrive once the industry hits on a viable online business model.

Now, let's talk about that sorcest of subjects: America Online. Wouldn't it be great to just sell the darn thing? But with nearly \$10 billion in debt and a shrinking subscriber base, it might be all but impossible to find a buyer. If you have to hang on to it, why not fold it into your soon-to-be-public cable company and milk its cash flow until the dial-up biz fizzles away in broadband's wake? Sure, it might be harder to sell cable to the public, but investors could come around when you re-

mind them of how much operating profit America Online still churns out—\$1.8 billion in 2002.

None of this is easy to stomach, I know—especially since everyone and his mother has an opinion about what you should do. Some of those experts are counseling you not to rush. Don't listen to them. The time for hard choices is long overdue. Get that debt down as fast as you can. It's the only way you'll have a chance of reenergizing your empire.

Sincerely yours,
Tom Lowry

Lowry covers media.



**SEMEL: GOING
HEAD TO HEAD
WITH GOOGLE**

broadband" service. Subscribers will pay a monthly fee to use a souped-up Yahoo gateway, regardless of what broadband provider they use. Yahoo will likely sell its service for about \$5 a month, compared with \$9.95 and \$14.95 for Microsoft Corp.'s MSN and AOL, respectively.

Yahoo declined to comment on its new broadband initiative, but the portal will surely rely on blitz marketing and the low price to win customers. Yahoo may also need to bolster its premium content and services. Fewer than 1% of Yahoo's visitors pay for services such as jumbo-size e-mail accounts or Yahoo's personal-ad listings. With even loyal Yahoo

users reluctant to shell out for extras, it may be harder to convince non-Yahoo users, who already frequent other portals.

Yahoo also must prove it can compete in the Internet search market, where it ranks No.3 behind MSN and Google. Last year, revenues from ads on its search-results pages boomed from next to nothing to over \$100 million. Now, Yahoo is tinkering with its search pages to squeeze in more ads. For that to matter, Yahoo must solidify its standing as a premier search destination. The portal has long used search technology from other providers, such as Inktomi Corp. and Google. But with Google emerging as a serious rival, Yahoo is acquiring Inktomi for \$235 million and is soon expected to evict Google as its search-technology source.

To succeed, Yahoo will have to grab market share back from Google. The popular site snared 4% more search traffic than Yahoo in December, according to comScore Media Metrix. Proving that Inktomi's search technology can rival Google's could be more a branding challenge than a technological one. Analysts

say the difference between search engines isn't great these days and that Inktomi is greatly improved.

It's another bright opportunity for Yahoo. Now it's up to Semel to prove he can deliver on the potential.

*By Ben Elgin in
San Mateo, Calif.*

THE INTERNET

AN YAHOO! TAKE THE BOUNCE LAST?

Maybe, if new broadband and
et search efforts succeed

No question, Terry S. Semel has engineered a remarkable turnaround at Yahoo! Inc.—especially given the problems at rival America Online Inc. In the past year, Chairman and CEO Semel has led Yahoo back into the black, following a \$93 million loss in 2001. Now, he's predicting that in 2003, the Internet giant will best its previous records in annual sales and profits—both set in 2000, the height of the tech boom. He's got plenty of work ahead. With Yahoo's stock still down about 20% since Semel took the helm in 2001, the 59-year-old exec must convince the market that he has built a long-term growth engine that will justify Yahoo's \$10.6 billion market valuation. Semel will get his chance on Feb. 12, when he presents his strategy in crucial new markets, particularly forays into broadband access and the Internet search market.

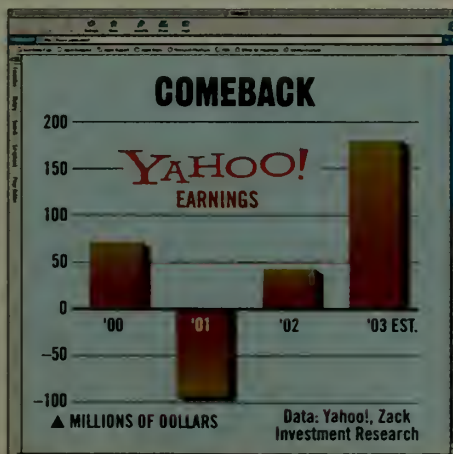
On the surface, Yahoo has momentum. It reported earnings of \$43 million last year, reversing the 2001 loss, as revenues grew 33%, to \$953 million. The revenue growth came largely through its 2002

acquisition of careers site HotJobs.com and a partnership with Overture Services to sell ads on Yahoo's search-results pages. And the core Internet-ad business, responsible for 60% of revenues, appears to be picking up. Semel now predicts 20% growth in such revenues for this year.

But Semel can hardly kick back and relax. Yahoo's stock price of \$17.75 means it trades at a lofty 63 times expected 2003 earnings. That's too pricey for analysts concerned about Yahoo's ability to generate strong growth in its newer businesses. Says First Albany Corp. analyst Youssef Squali: "Yahoo is in a transition period."

Bulking up the broadband business, with its stable monthly-subscriber fees, is Semel's most important task. True, Yahoo's five-month-old partnership with SBC Communications Inc. to sell broadband access is by most accounts a success. The business garnered Yahoo at least \$7 million in sales in the fourth quarter, with an additional \$70 million expected in 2003, according to analysts.

But the SBC deal by itself won't wow the market. With Yahoo capable of reaching only one-third of the country through its SBC alliance, Yahoo needs to find a way to reach the rest. To that end, *BusinessWeek* has learned, Yahoo will soon roll out a "bring-your-own-



EDITED BY MONICA ROMAN

DONALDSON DROPS SOME HINTS

AT HIS FEB. 5 SENATE CONFIRMATION hearing, William Donaldson, President Bush's pick to head the Securities & Exchange Commission, gave no hints about how he would achieve his top goal: finding someone to chair the new accounting oversight board. But Donaldson did provide clues about how else he might flex his muscle. The 71-year-old founder of Wall Street firm Donaldson, Lufkin & Jenrette said he was distressed that as-yet-unregulated hedge funds were targeting less-sophisticated investors. He also said the SEC should "take a hard look" at credit-rating agencies, with a view to making what is now an oligopoly more competitive. And Donaldson put the financial conglomerates on notice that he regarded the practice of banks softening their credit standards to win investment banking business as being as

worrisome as analysts' acting in cahoots with investment bankers.

CUTTING COSTS THE AMERICAN WAY

AMERICAN AIRLINES CEO DONALD CARTY is asking labor to kick in its share of his \$4 billion cost-cutting target to avoid bankruptcy and compete long term. The goal: \$1.8 billion in annual wage, benefit, and work-rule concessions. Labor leaders aren't dismissing Carty's plan out of hand but want more details. Says pilots' union spokesman Gregg Overman: "We understand that they have a real problem, and that it's not getting better." If Carty doesn't get some relief soon, American might be joining United Airlines and US Airways in bankruptcy court.

BIOGEN: RASHLY OPTIMISTIC?

THE FDA'S APPROVAL OF AMEVIVE gives Biogen a head start over rivals in the market for new psoriasis treatments. Biogen, based in Cambridge, Mass., predicts it will earn \$85 million from Amevive sales this year and \$500 million annually by 2005. But some analysts think that's too optimistic. They wonder how many of the estimated 1.5 million Americans with the chronic skin condition will be willing to trade convenient, but less effective, topical treatments for 12 weekly injections costing up to \$10,000.

EXODUS FROM LAZARD

FOUR HEDGE-FUND MANAGERS have left Lazard, the world's largest private investment bank. The managers—Robert Cope, Thomas Ellis, Ben Guest, and European Marketing Director Rupert

HEADLINER: RICHARD BARTON

TRAVELING MAN

It was surprising enough that Expedia thrived during the travel slump. But the online travel leader dropped a bomb on Feb. 5, when 35-year-old CEO Richard Barton resigned. He will be replaced by Expedia North America President Erik Blachford.

Even though he is leaving Expedia, Barton is joining the board of Barry Diller's USA Interactive, which owns 62% of Expedia. A former Microsoft product manager, Barton isn't easily intimidated. Last summer, when Diller tried to buy the shares of Expedia that he didn't al-

ready own, Barton argued that his company would perform better independently. Diller backed off. It's likely that Diller will try to buy the rest of Expedia and merge it with another travel site now that Barton has resigned.

Barton denies he is leaving because of any problem at Expedia and says that he and his family want to live in Europe.

Expedia's fourth-quarter results support Barton's claim. The company's earnings of \$21.4 million on \$164 million in sales beat analysts' expectations.

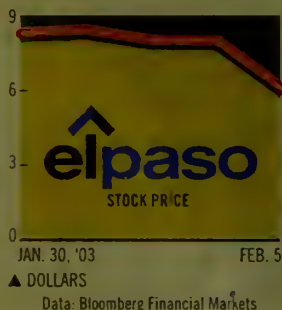
Timothy J. Mullane



CLOSING BELL

ENERGY CRISIS

Despite promises to shore up its liquidity and bolster its balance sheet, El Paso's stock plummeted 22.5%, to \$6.20, on Feb. 5. That's when the energy company announced that it was slashing its dividend and selling more assets. It will likely miss analysts' earnings estimates for the year.



Tyler—quit just weeks after Manager William von Mueffling also resigned. Von Mueffling ran Lazard's volatile European Opportunities Fund, which has posted annual gains of 57% since its inception in August, 1998. In response to the departures, Lazard President Charles Ward said: "We are reorienting our alternative investments to a research-driven, team approach."

ENIGMATIC AT AIG

WHEN AMERICAN INTERNATIONAL Group CEO Maurice "Hank" Greenberg said on Feb. 3 that the insurer would take a \$1.8 billion charge to hike reserves, investors got spooked. They sent its shares down nearly 10% in the next two days, on fears that it's underpricing its policies. But Greenberg says what AIG really needs is tort reform.

He's urging Washington to impose caps on class-action lawyers' fees and on asbestos settlements. For those investors wondering who will fill the 77-year-old Greenberg's shoes when he steps down, he has an answer—beit a qualified one. "The board knows who the successor is, and in the proper time the board will name that person," he said.

BusinessWeek online

For a Q&A with Hank Greenberg, go to the Feb. 17 issue online at www.businessweek.com

ET CETERA...

- Bankrupt Bethlehem Steel agreed to be acquired by International Steel Group.
- GE acquired Abbey National's consumer-lending business for \$1.4 billion.
- DaimlerChrysler reported a \$4.9 billion profit, vs. 2001's \$589 million loss.

ED BY PAULA DWYER

THE SPORT-UTILITY CRITIC DETROIT CAN'T DISMISS

Detroit has its hands full these days fending off attacks on sport-utility vehicles, the light trucks that environmentalists, consumer activists, and the media elite love to

Gas-guzzling SUVs put money in terrorists' pockets, cost thousands of lives a year in rollovers, and contribute to global warming, charges the anti-SUV crowd. Still, with the White House and Congress controlled by pro-business Republicans, few would think carmakers would be on Easy Street.

But while Detroit can dismiss such rabble-rousers, it can't

anyway wave away Jeffrey W. Runge, an emergency-room surgeon who heads the National Highway Traffic Safety Administration. Before coming to Washington, Runge, 47, treated thousands of auto accident victims. Having seen his share of carnage, he became a crusader for safer roads.

Since his appointment 18 months ago, Runge's accomplishments have been mostly symbolic. He has used his NHTSA pulpit to campaign for more seat belt use and better enforcement of drunk driving laws. And he has tried to cajole Detroit into building safer SUVs and pickup trucks. But then he threw industry off-balance: He said in January that he wouldn't let his teenage son drive an SUV with a high rollover rate "if it was the last one on earth."

On Feb. 11, Runge will turn up the heat. In a speech to auto execs, he's expected to call for design changes to boost SUV safety, some of which could be costly. NHTSA will issue non-binding recommendations for reducing crash-related injuries by lowering bumpers, adding side air bags, and creating chassis with more "give" to soften impacts.

On Feb. 26, Runge could really strip Detroit's gears when he tells John McCain's Senate Commerce Committee that SUVs and sedans, as now designed, are mutually exclusive. He'll let the numbers do the talking: Per 100,000 registered vehicles, the death rate from rollovers in SUVs is more than twice that of passenger cars.

What most worries Detroit is that Runge's criticisms dovetail

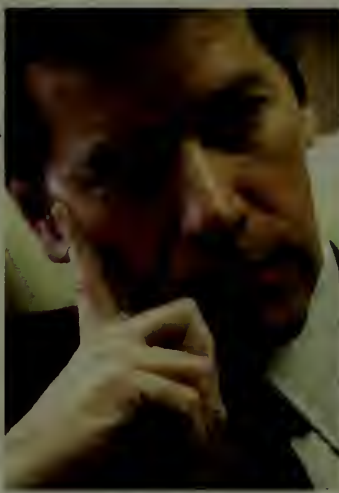
with those of the increasingly vocal anti-SUV crowd. Lately they have been front and center, thanks to the catchy "What would Jesus drive?" public-relations blitz—paid for by evangelical Christians concerned about global warming. And in January, onetime conservative celeb Arianna Huffington got gallons of ink with an ad campaign that attempted to link driving SUVs to financing terrorism. Gripes one auto industry insider: "Runge has given Huffington weapons-grade plutonium."

Even consumer advocates like him. Says Joan Claybrook, president of Public Citizen and a former NHTSA administrator: "He's very bright, and he's not a tool or sycophant."

But Runge is no rabid regulator, either. He declined to comment for this article, but in a Jan. 14 speech, he said the Administration prefers "voluntary brilliance to enforced compliance." For now, such talk appeases Office of Management & Budget regulatory czar John D. Graham, who praises Runge's "excellent work." But to carmakers, for whom a hostile market is even more frightening than federal meddling, the public jawboning amounts to de facto regulation. With McCain and consumer groups watching the doctor's back, it would be political folly for Detroit to push for Runge's ouster. Instead, industry is mulling a grassroots campaign to tell its side of the story.

Carmakers say they already are improving SUV design. "Safety is very important to us," says GM North America President Gary L. Cowger. GM lowered the front of its 2002 Chevrolet Trailblazer and GMC Envoy, and Ford is lowering the front bumper on Explorers. For years, however, the auto lobby ducked any proposal that threatened SUV sales, which account for 90% of the Big Three's profits. As the battle moves from Washington to the arena of public opinion, Detroit is on the defensive. "Regulation" might be a dirty word in the Bush Administration, but it seems the top auto safety official never got the memo.

By Lorraine Woellert, with David Welch in Detroit



RUNGE: Public jawboning

CAPITAL WRAPUP

WANTED: A FEW GOOD AUDITORS

To fulfill its watchdog mission, the new accounting oversight board created last year by Congress must attract top-quality staff. But demand for accountants by Big Four firms, corporations, and the SEC has skyrocketed. A source close to the board says it isn't seeing as many top-notch, reform-minded accountants as expected. One hitch: Some interviewees worry that a stint at the board, which will discipline

wayward accountants, could kill their chances of getting a job later on at a big firm. Korn/Ferry International, which is recruiting for the board's top posts, says it's getting high-caliber prospects.

FAST TRACK? HARDLY

► Winning fast-track trade authority last year was supposed to let President Bush whisk trade deals through Congress. So far, that hasn't happened. The Administration has noti-

fied Congress it has reached free-trade agreements with Chile and Singapore, but it has released only bare-bones details, citing a 90-day congressional comment period before Bush formally signs. But some lawmakers are balking at the rush job: They can't get feedback from lobbyists, who can't get texts of the agreements because they remain classified. The result: Both deals remain secret to all but a small group of outside White House advisers.

THE DECLINE OF GERMANY

Drive down Berlin's Unter den Linden these days, and it's easy to imagine you're in the capital of a vibrant new Europe. The rebuilt, buffed-up avenue now rivals the Champs-Élysées as the Continent's most majestic thoroughfare. Daringly designed buildings are everywhere, the Berlin Wall a fading memory. The Brandenburg Gate is freshly cleaned and polished. Nearby, Chancellor Gerhard Schröder governs from a new, grandiose, nine-story residence and office complex that makes the White House look like a summer cottage. The refurbished Reichstag is a paean to the power and prosperity of unified Germany, the linchpin of the European Union.

That's how Germany's leaders want the world to view their country. But looks are deceiving. The showcase city of Berlin is in such a financial fix that it's firing teachers and closing swimming pools. Just four months after Schröder's reelection as Chancellor, his Social Democratic Party is so unpopular that it was clobbered in two key state elections on Feb. 2. Polls show Germans more pessimistic than they have been in decades.

The vaunted model of Rhineland capitalism, where the state and business work together, is in slow-motion collapse. Japan on the Rhine is a better way to describe what's going on. Germany has grown an average of 1.3% a year over the past decade—the lowest rate in Europe and not much better than Japan's rate of 1%. "In the '70s and '80s, Germany was the model of the world," says one leading executive. "Now we're being repeatedly referred to as the sick man of the world, the sick man of Europe."

As they enter a second decade of stagnation, Germans



CHANCELLOR GERHARD SCHROEDER

With a weak economy and little political will to reform, is it fast becoming another Japan?

are beginning to wonder if the disease is chronic. What fooled many of them for a long time was that the real nature of the decline was often masked by short recoveries, global shocks, outsize political promises that never materialized. There was usually a handy explanation for economic setbacks: a technology gap, a stock market bubble, or a slowdown somewhere else in the world. "The government always looks for reasons elsewhere," says Jürgen Donges, former chairman of Germany's five "wise men," the council of economic advisers.

But now, decline has enveloped Germany's most vital institutions and industries. In the 1960s, the Germans were the world's No. 1 pharmaceutical producers. Now, the country that invented aspirin has no company in the top 15. In the 1980s, Frankfurt's elegant banks stood as bastions of stability. Now, Frankfurt's future as a major financial center is in doubt. German once-hallowed universities are short of funds and overrun with mediocre students taking advantage of free tuition. Only a decade ago, when President Bill Clinton proposed a national medical system for the U.S., there were only two models worth looking at, Germany and Canada. Today, Germany's system is increasingly unaffordable, while the

quality of care is declining. Germany's DAX 30 stock index was the worst-performing in the developed world last year. Bankruptcies are soaring. Even the trains don't run on time.

If Germany's long slide into mediocrity were only robbing the future of 82.5 million Germans, that would be sad enough. But it's not that simple. As Europe's largest and richest nation and steward for the euro, Germany's failures radiate across the Continent, fraying the cords that have kept the sometimes fractious but workable Atlantic Alliance intact.

POOR PROSPECTS

“All the people I know are at the end of their studies and don’t know what to do. It’s a catastrophe.”

— JENNIFER KNOBLACH,
JOURNALISM STUDENT IN BAVARIA





for half a century. Germans, like many Americans, have deeply held concerns about George W. Bush's determination to attack Iraq: "Saddam Hussein is no saint, but to me the whole thing smells like it's about oil—oil and Bush's personal prestige," says Alexandra Chmielewski, a Green Party stalwart. That's a commonly expressed opinion. But Schröder has taken such misgivings to a new level with his unqualified refusal to support the U.S. despite evidence that Iraq is building weapons of mass destruction. He is the first German leader in half a century to break so blatantly with the alliance.

This kind of political opportunism may play well at home, but it's turning out to be one more blow to Germany's standing in the world. "As far as international security is concerned, the Germans are becoming increasingly irrelevant," says former U.S. Ambassador to Germany John C. Kornblum, now chairman of the German unit of investment bank Lazard.

Indeed, instead of following Germany's lead, many European nations—Britain, Italy, Poland, Hungary, Portugal, the

SKEPTICAL GREEN

“Saddam is no saint, but to me the whole thing smells like...oil”

— ALEXANDRA CHMIELEWSKI,
GREEN PARTY ACTIVIST

Czech Republic, Denmark—voicing support for the U.S. position. Even some Germans are aware of the risk this split poses. "It's crude anti-Americanism," says Axel Wintermeyer, a lawyer in town of Hofheim near Frankfurt who is active in local politics and a member of the center-right Christian Democratic Union. "The Germans are isolating themselves."

Schröder's plunging popularity could still provoke a course change, especially in the wake of the Federal elections. But his failure so far to revive the fortunes of Germany raises a troubling question: What kind of Europe will emerge if Germany cannot be the locomotive of growth? What policy? Some prominent Germans are already talking about losing their crucial postwar role. "We used to speak of the British disease," says Donges. "For the next 10 or 15 years, we'll talk about the German disease." Meanwhile, Europe's friendlier states—the more dynamic economies of Ireland, Finland, Britain, Spain and Central Europe—will take on the responsibilities of powering European growth and shaping European Union foreign policy.

In contrast, Germany—while France not far behind—will continue Europe's unchanging course, where taxes remain stiflingly high, growth is glacially slow, and labor rigidities kill chances to dent unemployment. Growing anti-Americanism will warp foreign policy, and

U.S. policymakers will both tune out and work around the difficult allies. That happened even before the current Iraq crisis, when Germany and others criticized U.S. plans to scrap the Anti-Ballistic Missile Treaty with Russia. The Bush Administration went deaf. Ignoring German protests, the U.S. ditched the treaty anyway and cut a new deal. "The message was, 'We don't depend on you anymore,'" says Burkhard Schmidt of the European Union's Institute for Strategic Studies.

What's astounding is that Germany has studied all the problems for the past two decades. Count Otto Lambsdorff

TEN LOW-COST WAYS TO FIX THE GERMAN ECONOMY

	1	2	3	4	5
IDEA	► Relax job-protection laws, especially for small companies and older workers	► Make it easier for individual companies to opt out of collective bargaining agreements	► Allow stores to stay open whenever they like, at least in downtown areas	► Limit the ability of workers' councils to block or delay company plans	► Charge modest tuition to universal college students from affluent families
BENEFIT	► Would encourage hiring and stop decline in workforce participation by people over 55	► Would give relief to struggling companies that can't pay the prevailing wage	► Would create jobs, help stimulate consumption, and make everyday life easier	► Would allow companies to move more quickly and grow more competitive	► Would improve schools' finances and get young people in the workforce by 3

age 76, authored an analysis of Germany's problems in 1982 that have been written today.

What prevented reform? In a sense, a reverence for stability at all cost. Shaped by a tumultuous past, the entire country is wired to resist change. Politicians from the federal level down to the local Bürgermeister bend over backward to avoid confrontation, particularly with the unions. Amid a dire budget crisis in January, for example, federal and local governments caved in to the demands by public workers rather than risk a strike. Leading conservative politicians supported capitulation.

While these problems were festering, enough was going right for Germans to convince them that the crisis was looming. The miracle of post-war growth—the *Wirtschaftswunder*—created one of the most financially powerful states on the planet. Unification with East Germany seemed to give an unparalleled political boost to German might by creating overnight Europe's most populous state—one that would be at the center of the post-cold war European order. Then, Germany played a key role in forging monetary union—and insisted on a stability pact that required the severest fiscal discipline from the states that joined the euro zone. Now, Germany's inability to rein in its own budget deficit threatens to throw European economic coordination into chaos.

Enormous structural impediments keep Germany from making its spending and revitalizing its economy. Start with *Kündigungsschutz*, the job-protection law, little changed since the 1950s. In effect, the law makes any employer pay through the nose for laying off workers. The unions—which have the allegiance of three-quarters of the Social Democrats in Parliament—will defend this law to the death. The Christian Democrats are afraid to confront the unions. The law slowly corrodes the job base by making companies loath to hire. The result is unemployment of more than



BUSH SUPPORTER

“It’s crude anti-Americanism. [We] are isolating [our]selves”

— AXEL WINTERMEYER,
LAWYER AND CDU STALWART

11%. “It’s a catastrophe,” says Jennifer Knoblach, 24. Knoblach expects to earn an M.A. in journalism in June from the Catholic University of Eichstätt-Ingolstadt in Bavaria. She may look abroad because of her sorry prospects.

Arndt Rautenberg, 35, says he didn’t think much about the *Kündigungsschutz* when, in 2000, he and two partners founded a tech consulting company in Düsseldorf that eventually merged with Cambridge (Mass.)-based Sapient Corp.

After the tech boom petered out, Rautenberg had to lay off a few dozen people. But under the law, he couldn’t lay off the worst performers: He had to get rid of those best able to find a new job. Rather than fire some of his most qualified people, Rautenberg opted for costly severance agreements with the others. Now, he says, “my view on hiring has changed totally.” When there’s extra work, Rautenberg farms it out to other Sapient offices rather than hire locally. Some of his executives even have assistants in India. They can answer calls to the German offices without callers knowing

Others have long known what the right remedies are for Germany’s structural rigidities. But don’t get hopes up: Opposition from the unions is too entrenched for most of these measures to fly.

6	7	8	9	10
► Reduce red tape, such as lengthy approval and registration procedures for new companies	► Slash subsidies to sunset industries such as coal mining, and cut taxes instead	► Get social security spending under control by cutting incentives to retire early	► Rein in health-care spending by requiring patients to pay more out of pocket	► Require every member of parliament to complete a basic course in economics
► Would encourage entrepreneurs, lower business costs, and create jobs	► Money could be used to finance tax cuts and be invested in the future, not the past	► Would increase the number of people paying taxes instead of collecting pensions	► Even a modest fee would discourage the people who abuse the system of free visits	► Would increase the chance that some of these other ideas would be implemented

INVESTMENTS



INCOME FOR A LIFETIME

ADVICE AND PLANNING

Merrill Lynch

WE SEE YOUR FINANCIAL LIFE IN TOTAL.™

MY CLIENT WANTED: To feel comfortable that he had a reliable source of income to lead the life he wanted throughout his retirement.

I BROUGHT TOGETHER: Bonds, annuities and some practical advice. I made sure Bob's investments were diversified across all asset classes. And diversified within his fixed income investments in particular. So I laddered his maturities and yields to give Bob the right mix of return and risk. We incorporated municipal bonds for tax-free income. We also set aside dividend income from stocks for long-term care insurance. Bob's income is now more predictable. And secure.

WE'RE PLANNING: On giving Bob confidence that he'll enjoy the retirement he deserves while providing a future for his family.

MY NAME IS: Thomas Rushing, Merrill Lynch Financial Advisor, Houston, Texas.

TO MAKE YOUR MONEY WORK TOGETHER: Work with an advisor who sees your financial life in total. And makes it work in total. Call a Merrill Lynch Financial Advisor or 1-800-MERRILL. Or visit www.askmerrill.ml.com



Merrill Lynch
Financial Advisor
Thomas Rushing



TOTAL MERRILL™



the voice on the line is in New Delhi.

Rautenberg is simply following the initiative of giant German companies in seeking friendlier climes. Just look at the 30 companies that make up the DAX index of Germany's biggest stocks. All but a handful do most of their business abroad—and even domestically oriented companies like Deutsche Post, the publicly traded national postal service, are internationalizing. German companies are investing more abroad than foreigners invest in Germany—\$43.3 billion vs. \$31.8 billion in 2001. That's a sure sign of slipping competitiveness. Drug producer Schering and software maker SAP, for example, are shifting more and more research and development to the U.S. and other countries. "Once the R&D has left Germany, it does not come back," says Hans-Dietrich Winkhaus, former CEO of chemical maker Henkel.

Thus, Germany winds up with a Toyota-Sony economy: great companies, lousy growth. In fact, exports have risen steadily over the past decade even as domestic consumption slumped. Those who can't escape the local economy find their own solutions. Entrepreneurs increasingly cheat to dodge the

ANGRY EXECUTIVE

“Schröder and his team lack a blueprint”

— ARNDT RAUTENBERG, SAPIENT'S GERMAN CHIEF

prescribe harsh measures in the East, where the heirs to the old Communist Party still have clout.

Another great constraint on change is that Germans still live rich. Pension benefits can equal 70% of a person's average lifetime pay, actually enabling older Germans to save income. Unemployment benefits are nearly as generous. Urban decay is nothing like what it is in the U.S. On paper, the eastern city Magdeburg is one of the worst places in the country. Unemployment in the region is 21.5%. After the fall of the Berlin Wall, its industry crumbled—literally: A few miles from downtown are the deteriorating remains of a heavy machine complex that in communist times employed 12,000 in Magde-

burg. crushing weight of payroll taxes. Off-the-book labor and other black-market activity has risen to 16% of gross domestic product from 13% in 1995. Some \$363 billion in economic activity went untaxed in 2001, says Friedrich Schneider, a professor at the University of Linz, Austria who tracks the black market.

The job law is one huge burden. The former East Germany is the other. After the Berlin Wall fell in 1989, Chancellor Helmut Kohl was obsessed with making unification work politically and didn't want to hear about the economic consequences. Everyone now knows the big mistakes: swapping East German marks for Deutschmarks at five times the Ostmark's real value, overinvestment in East German construction, and massive tax payments to the East. That's one reason Germany has the second-highest nonwage payroll costs in the world after Belgium. Since 1990, reunification has cost an estimated \$700 billion and still devours 4% of GDP a year.

Trouble is, the rebuilding is far from over. "From an economic point of view, there are naturally things we shouldn't have done," says Finance Minister Hans Eichel. "You can't take an economy that has been cut off from the world for 40 years and make it competitive overnight. It will take until 2020 to conclude the process of reuniting Germany." Electorally, meanwhile, East Germany now plays the same role California plays in U.S. politics. It's extremely tough to win national elections without it. Clearly, politicians are afraid

THIS 'SUPER MINISTER' IS GUNNING FOR REFORM

To hear Wolfgang Clement tell it, all will soon be right with the world. Sputtering growth? "Don't underestimate the strength of the German economy," he says. Tension in relations with the U.S.? "I love America. What can I do for America?" says the newly appointed Economics & Labor Minister, spreading his arms and smiling.

Indeed, Clement, a 62-year-old former newspaper editor, is about the only member of Chancellor Gerhard Schröder's embattled Cabinet who can still

manage a smile. That may be because Clement hasn't been in Berlin very long. He arrived in October, after Schröder stole an idea from the opposition Christian Democratic Union and combined labor and economics into a powerful new "Super Ministry." Clement resigned as Prime Minister of North Rhine-Westphalia, Germany's most populous state, to take the job.

Almost immediately, Clement emerged as the leading voice for change in a government that had lost its momentum. He violated a Social Democrat-

ic Party taboo by suggesting that Germany reform its 50-year-old job-protection law, which shields employees but discourages companies from hiring new workers. Such proposals have made Clement the vessel for Germany Inc.'s hopes that something will finally shake the nation from its economic torpor.

Clement has set out an ambi-

CLEMENT: Will Schröder continue to back him?

GERMANS TODAY ARE...

In a Funk...

How Germans see the coming year

WITH HOPE:

31%

WITH SKEPTICISM:

30%

WITH FEAR:

31%

UNDECIDED:

8%

Data: Allensbach Institute
For Opinion Research

...Moving into The Shadow Economy...

Black market as a percentage of GDP

1995

2001

13.9%

16.0%

Data: Friedrich Schneider,
University of Linz, Austria

... Spending Less ...



... And Losing Ground in Europe



alone. But in the center, a new mall roused with shop. Thanks to trans- from the West, y buildings are ei- new or renovated. us Germans don't the decay in the m. They also don't he quiet retreat of re industries. Ex- iver bureaucracy poor research sup- for example, have nated pharmaceu- s. A bizarre exam- Birgit König, a ner at consultant Kinsey & Co. in in who specializes health care, recalls g her own blood

experiments as a student. That was easier than the time-suming approvals needed for animal experiments. She completed her research in the U.S.

Can anything turn Germany around? Some politicians are trying to recognize the scale of the crisis. "We need much more growth," says Economics & Labor Minister Wolfgang Clement. Indeed, Clement may have been the first Social Democrat ever to propose relaxing the *Kündigungsschutz*. It prompted howls from unions, which can block most legislation they don't like, and Schröder has been noncommittal. "The party backpedals before Clement finishes a sentence," complains Sapient's Rautenberg.

To be sure, the Feb. 2 elections delivered such a shock that Schröder pledged to work with the CDU to speed up the pace of change. But advocates of reform have seen false dawns before.

"I don't think the government will have the courage to go for fundamental reforms," says Karl-Heinz Paqué, finance minister of Saxony-Anhalt in Eastern Germany.

If the central government shows little inclination to act, local administrations are showing some signs of vitality. Although Eastern Germany is mostly a basket case, some states there have turned into laborato-

ries for reform. Paqué is cutting the state bureaucracy and challenging labor by threatening to withdraw from the government employers' association that negotiates nationwide wage agreements. SKET Machine & Facility Construction in Magdeburg employs a nonunion workforce that is much more flexible about working hours and wages. "Sunday, holidays—it doesn't matter. The problem will be solved," says Managing Director Dirk Pollak. SKET expects 2002 sales to reach \$64 million, up from \$45 million in 2001.

Other entrepreneurs want dramatic changes in policy. Randal Rodenstock, CEO of the Munich-based eyeglass maker that bears his family name, proposes a 50% cut over three years in subsidies and tax breaks, many of which favor selected industries. Then the government should slash taxes for individuals and corporations alike. "We've got to get away from all these petty measures," says Rodenstock.

If Germany cannot reignite growth, the implications for a two-speed Europe are profound. The European Central Bank, for example, cannot slash rates forever to prod Germany into growth, especially when smaller states like Ireland and Finland are prone to overheating. If Germany can't patch up the holes in its budget, then the newfound strength of the euro also will be threatened.

Germany will see its global role diminish further if it can-

tious agenda. He promises to cut bureaucracy, lower non-wage costs that discourage hiring, and help German municipalities get their dismal finances in order. And he vows to do it all fast, taking advantage of a respite

from regional elections. "The most important reforms must be realized in the next one to one-and-a-half years," he says.

Clement sought common ground with the Christian Democratic Union even before the opposition party slaughtered the Social Democrats in state elections. With Schröder now badly weakened and desperate to restart the economy, prospects for the two parties to work together on reform—and share the blame for the pain—may be better than ever.

Don't expect a revolution, though. What passes for radical reform here is tepid by international standards. Clement's revamp of the job-protection law, for example, would only

slightly widen exemptions to the law for small companies. "It's all very half-hearted," says Karl-Heinz Paqué, finance minister of the state of Saxony-Anhalt.

Such talk is helping keep expectations low. "I think Clement really wants to do something," says Diether Klingenberg, chairman of a family-owned company that bears his name and produces gear-making machinery in North Rhine-Westphalia. "Whether he can or not, I don't know." If Clement defies skeptics and helps turn the economy around, he could even succeed Schröder as Chancellor in 2006. If he fails, he will just be the latest in a long line of frustrated reformers.

By Jack Ewing
in Berlin

Identify and keep your most valuable customers.

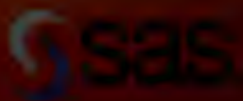
SAS is all you need to know.

Only SAS provides you with a complete view of your customers. So you'll understand their needs, enhance their lifetime value and achieve greater competitive advantage. To find out how leading companies are reaping the rewards of SAS customer intelligence software, call 1 866 270 5723 or visit our Web site.

www.sas.com/customer



The Power to Know



address these issues. Schröder showed courage in 2001 by committing forces to Afghanistan. But Berlin's refusal to significantly boost defense spending still makes it a less reliable partner, for other Europeans and for NATO. Now, an increasingly strapped Germany will find it hard to beef up the armed forces that would give it more clout in foreign policy matters. "Germany would have a stronger role if we had a stronger military, there is no doubt," says a German diplomat. The most likely outcome for Germany is that nothing will change substantially. When a country this rich and aggrandized turns inward, it loses its claim on any vital role in

world affairs. Stagnation even feels comfortable. You won't see masses of homeless on the streets; Munich will still celebrate Oktoberfest every year. But if they don't figure out a way to revitalize growth, Germans will end up part of a once-great nation that's slipping into irrelevance.

By Jack Ewing in Frankfurt

BusinessWeek online

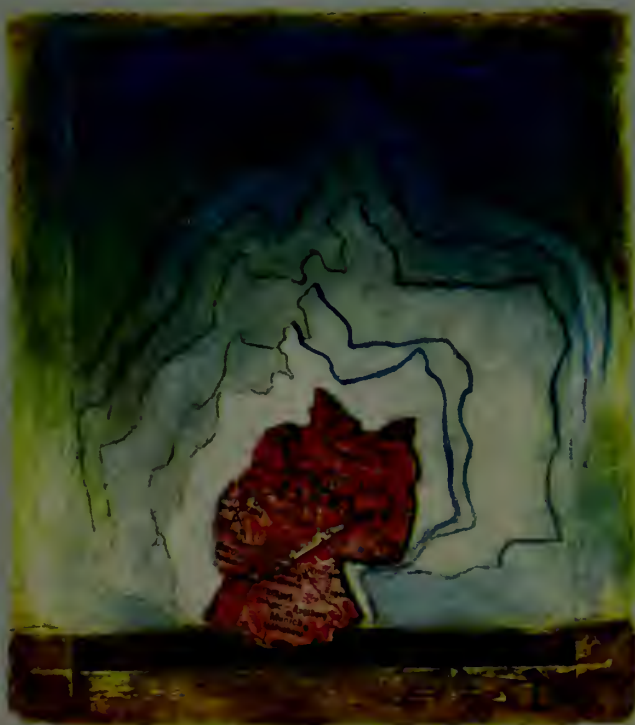
For more stories on Germany, go to the Feb. 17 issue online at www.businessweek.com

COMMENTARY

By John Rossant

HOW GERMANY'S FALL FROM GRACE HARMS EUROPE

The international scene is tense. An ambitious French leader, eager to build a united Europe as counterweight to an overweening and too-powerful U.S., cuts a grand political and economic deal with his German counterpart. Yet other European nations—led by Britain—recoil from this vision. It could, they say, sink the Atlantic alliance on which the security of Europe has long depended. The Franco-German challenge fails. Sounds like today's headlines, right? A new Berlin-Paris entente, angering both the U.S. and other European states for its outright opposition to America's war-rattling against Iraq. In 1963, the diplomatic crisis described above occurred. Then an imperious Charles de Gaulle tried to meld French political prestige with Germany's economic might to counterbalance U.S. power. Then, as now, other European states declined to sign up. Had Jacques Chirac and Gerhard Schröder adhered to do a little back-of-the-envelope calculations before they announced their grand plans for Europe in mid-January, they would have realized that many European states would resist them. And resist they have. This, then, is the cost of Germany's fall from grace: a deeply split Europe, more paralyzed than ever about conquering economic and political integration—and facing a damaging confrontation with the U.S. Germany's defiance is raising eyebrows even in France. Germany has neither economic power nor political vision anymore, so it's a waste of time [to make an alliance with it]," says Pierre Lellouche, a member of Chirac's center-right party.



The damage, though, has been done. Europeans everywhere are starting to worry about other fallout from a dysfunctional Germany. It represents, after all, one-third of the euro zone's economic output. That's why its failings can blunt what little dynamism remains in the Old World. Germany may still be an export powerhouse: There are always customers around the world for its high-quality cars, machine tools, and chemicals. But demand is weak at home. Depressed Germans simply aren't spending anymore—and aren't doing their bit to help out the rest of Europe. A Teutonic pall is spreading across the Continent.

Instead of Germany telling Europe what to do, it's time for the opposite to happen. Europeans should tell Berlin that serious reform is essential: Eu-

rope's stability depends on it.

Consider the alternative. If the tensions between Europe's slow-growth German-dominated core and its more dynamic periphery increase, then the dire warnings of former Chairman of the Council of Economic Advisers Martin Feldstein will come true in spades. Writing long before its introduction, Feldstein worried about the consequences of the euro. "Instead of increasing intra-European harmony and global peace," Feldstein wrote in *Foreign Affairs*, a single currency "would be more likely to lead to increased conflicts within Europe and between Europe and the U.S."

Feldstein couldn't have predicted the flap over Iraq. But it's easy to imagine that the split between Germany and much of Europe over foreign policy may lead to even sharper differences

over the whole European experiment. Finland, Ireland, and other small countries are already alarmed at Germany's inability to curb its budget deficits.

Pressuring Germany to curb spending, boost growth, and act like a responsible leader would be the best way of honoring Germany's pact with the rest of Europe. After all, Germany's decision to abandon the then-mighty German mark for the euro was meant to ensure "a European Germany rather than a German Europe," as former Chancellor Helmut Kohl ceaselessly reminded everybody. Kohl wanted to banish Europe's fears of German dominance. But contemplating Germany's weakness is just as scary.

Rossant covers European economic and security issues from Paris.

TODAY

**Shared vehicle system
for short-distance
transport**



**RAV4 EV
RESERVED
ZEV-NET**



**RAV4 EV
RESERVED
ZEV-NET**



**PRIUS
RESERVED
ZEV-NET**

TOMORROW

TOYOTA

environmental benefits
of long-term thinking



**PRIUS
RESERVED
ZEV•NET**

At Toyota, we're constantly exploring new ways to help the environment — whether it's by lowering pollution levels, reducing fuel consumption or minimizing traffic congestion. That's why we're particularly proud to be a founding member of ZEV•NET™, an experimental transportation network that aims to accomplish all three.

Comprised of both zero and low emission vehicles, ZEV•NET combines the flexibility of driving a car with the environmental advantages of mass transit. Participants in Irvine, California share fifty environmentally advanced Toyotas for travel between nearby train stations and business parks. And by driving an electric RAV4 EV, zero emission e•com car or gas/electric Prius, they're definitely doing what's right for the planet.

Through community-based projects like ZEV•NET, we aren't just improving our cars. We're also improving the way they're used—in neighborhoods right where you live. Talk about bringing environmental benefits closer to home.

www.toyota.com/tomorrow



**e•com
RESERVED**



**e•com
RESERVED
ZEV•NET**

SOUTHERN DISCOMFORT

How the heavyweight South Carolina firm Ness Motley choked on too much tobacco money

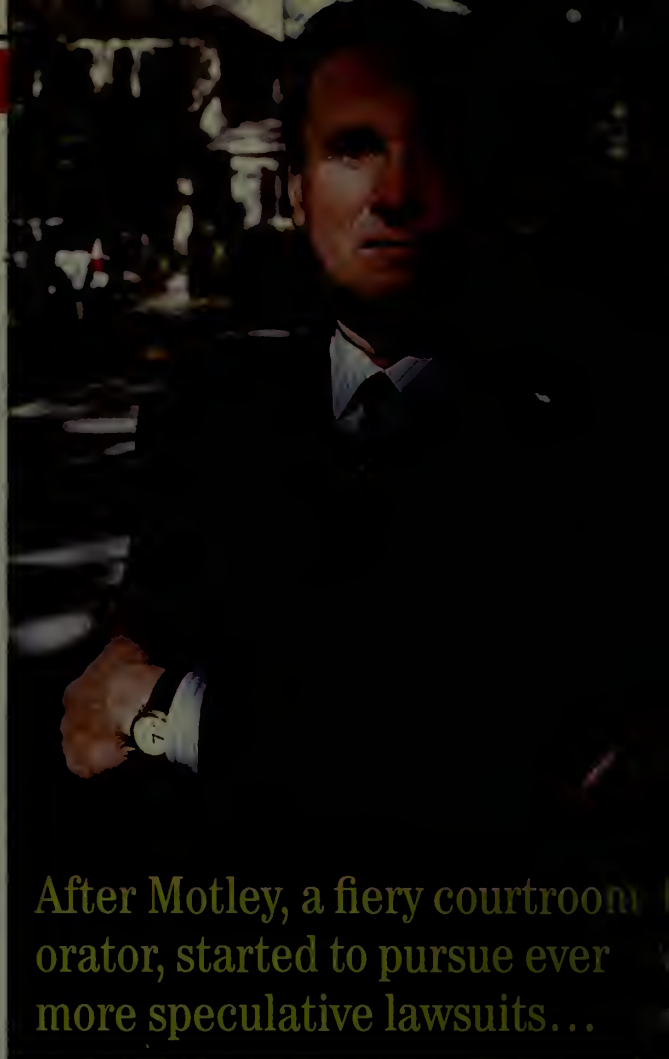
When asked about his business philosophy, lawyer Ronald L. Motley often quoted Dolly Levi from the musical *Hello, Dolly!* "Money is like manure," the Charleston (S.C.) litigator would declare in a theatrical voice. "It should be spread around to help young things grow." Motley, 57, practiced what he preached. The small law firm he led, Ness, Motley, Loadholt, Richardson & Poole (NMLR&P), parlayed the asbestos millions it won in the early 1990s into tobacco billions a few years later—and then invested the cigarette money to take on drugmakers, lead paint manufacturers, and car companies. Motley's personal rewards included annual pay in excess of \$10 million, multiple homes, a yacht, and a flattering portrayal in the 1999 movie *The Insider*.

But this bounty proved too rich to manage. His firm began to rot from the roots up like an overfertilized magnolia. The six partners who owned the 75-attorney outfit feuded over everything from whether to buy an \$18 million private jet to who deserved the biggest share of the firm's \$1 billion tobacco bounty—those who had won the settlement or partners who brought in the humdrum but paying caseload that kept the firm afloat during the costly tobacco battles. As the partners' bank accounts swelled, the atmosphere soured. One top lawyer got locked out of his office for a month. Another vilified one of his partners in the legal press as a "dictator"

and the "Antichrist."

In February, 2002, four of the six share-owning partners decamped to form their own practice, Richardson, Patrick, Westbrook & Brickman, taking scores of staff and clients with them. Staying behind were the two litigators who had played the biggest role in the tobacco wars: Motley and his right-hand man, Joseph F. Rice. In the months since, the two sides have filed a series of arbitration claims against one another. (The NMLR&P partnership agreement, interestingly enough, prohibited disputes from being taken to court.) The defecting partners, Rice says, are seeking more than \$100 million for their share of back pay and the firm's assets—an amount he claims would cripple the business. Rice and Motley, meanwhile, are countering to gain access to records and client files that their ex-partners carted away.

The Ness Motley saga is the rarest of business stories—a tale of an institution that choked on too much money. At the same time, it involves classic themes of ego, jealousy, and greed. Instead of working together to divide history's biggest legal windfall equitably, the firm's litigators just found more



After Motley, a fiery courtroom orator, started to pursue ever more speculative lawsuits...

things to fight about. Today, partners who were once hunting buddies no longer speak to one another. Says Rice, "We were the victims of success."

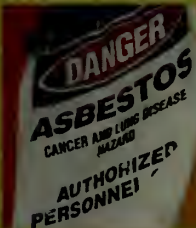
That the players were plaintiff lawyers had something to do with the way things turned out, of course. Tobacco attorneys are an aggressive lot. They represent individuals against big companies in high-risk lawsuits. They earn millions if they win—or nothing if they lose. It's entrepreneurial work that attracts forceful personalities. "It was always acrimonious" at the firm, says former Ness Motley attorney Blaine Hahn, who left for Richardson Patrick.

By the time NMLR&P won its landmark tobacco settlement in 1998, the firm was already deeply fractured. Partners were squabbling over everything from what types of cases the firm should take to how its lawyers should

POWER FIRM

Charleston-based Ness Motley Loadholt Richardson & Poole made a fortune capitalizing on national tragedies

Data: BusinessWeek



\$1.3 billion settlement against 20 asbestos companies.

ASBESTOS

1992 Ness Motley heads a coalition of plaintiffs' law firms that wins a then-huge



gation. Companies ultimately pay \$1 billion over 25 years.

TOBACCO

1994 Represent state attorneys Ness Motley sues Tobacco, serving one of the two firms steering the



Richardson, the reserved one, joined—with several other partners—to start a new practice

in court. Lead attorneys Motley and E. Richardson Jr. represented opposing sides of the widening fissure. Ironically, the men started out from similar places: Both are native South Carolinians raised modestly in small towns. Motley worked in his father's station in poor North Charleston, the first in his family to graduate from college. Richardson grew up on a family farm about 60 miles northwest of Charleston. Both men saw law as the way to climb up the economic ladder. But the similarities stop at their personalities. Motley declined to talk with *BusinessWeek*, but even enemies acknowledge that he is a creative, and sometimes flamboyant, litigator. Once, for instance, he put on a white smock and a toy stethoscope to unnerve a doctor he was cross-examining. In *The Insider*, he is memorialized for getting

whistleblower Jeff Wigand's words on the public record for the first time. "Wipe that smirk off your face," he barks at a tobacco lawyer at a dramatic high point in the script. "I'm going to take my witness' testimony whether the hell you like it or not."

Motley lives in a gated home with security guards on James Island off the South Carolina coast and has a 9,800-square-foot vacation palace on nearby Kiawah Island. He owns a 120-foot ocean yacht christened Themis, after the Greek goddess of justice. Like many other top plaintiffs' attorneys, he's also a major contributor to the Democratic Party. "Motley likes to live rich and fancy," says Richard Harpootlian, chairman of the South

Carolina State Democratic Party. "He enjoys being a celebrity."

Richardson couldn't be more different. The 57-year-old attorney lives in the same modest house in Barnwell, S.C., he inhabited when he began his career. Says Harpootlian: "You wouldn't know he had two dimes to rub together if you were in the same room with him, that's how understated he is." Where Motley commands a courtroom with populist preaching, Richardson comes across as quiet and patrician. His late father-in-law, in fact, was Julius B. Ness, the former chief justice of the South Carolina Supreme Court who gave the law firm its first name. As Motley searched for more and more national attention, friends say, Richardson was content to remain a big fish in Charleston's small pond. Comparing their local stature, a judge who knows

both well says: "Richardson is the town's best high school English teacher, while Motley is the world-famous author who just happens to live in town."

At first, the differing styles of the two lead attorneys served the firm well. While Motley was out crusading against Big Tobacco, Richardson and his allies were bringing in the bread-and-butter personal injury cases that kept NMLR&P prospering. "Ness Motley would have gone broke without Richardson," says one attorney who has worked with both men.

The alliance frayed when the serious bucks started flowing in. Trouble began in 1999, when Motley and Rice pushed to rejigger the way partners were compensated. No one at Ness Motley would discuss the change on the record, but several current and former attorneys at the firm say the terms were changed to favor those who battled tobacco. For starters, tobacco fees, to be paid by the states over the next 25 years, were funneled into a new, separate fund. Forty percent of the fees—more than \$400 million, all told—was allocated to Motley and Rice, who spearheaded the tobacco case. Motley's role had been to bloody the companies in court, while Rice, a master backroom negotiator, coaxed them into settling. The remainder in tobacco fees was to be divvied up according to seniority and level of involvement in the case. It's a change that favors some younger attorneys over longtime partners, say insiders. "Some people had to take a reduction in compensation to accommodate some of our younger sharks," says Rice.

Compensation wasn't the only bone of contention. A growing number of partners thought Motley and Rice were letting expenses spiral out of control. They planned to build a \$25 million headquarters looking out over the Port of Charleston. And the duo won a battle to buy an \$18 million Falcon jet, which cost \$4 million annually to fly and maintain. Rice insisted the jet was necessary to attract rich clients. But Richardson and others scoffed. "There was no way to justify that Falcon," he

LEAD PAINT

1999 Rhode Island Attorney General Sheldon Whitehouse awards firm a contingency-fee contract to sue

makers of lead paint. So far, it has materialized into a big bonanza.



TERRORISM

2001 Motley prepares to sue the Saudi royal family on behalf of victims of the Sept. 11 attacks.

The suit generates international publicity but alienates his partners.

NESS MOTLEY BREAKS UP

2002 With 11 partners having defected to set up their own firm, both sides are now battling over money, clients, and control of the firm's name.

says. "Expenses were out of control."

Rice, who served as the firm's day-to-day manager, also began to alienate some partners with his heavy-handed style. At one point, partner Thomas Rogers was locked out of his office for a month as tensions rose within the firm. He also gave partners less freedom to choose what type of work they did. Rice says he tightened the reins for good reason. "We were like five or six firms under one roof," he says. "I said, 'No, everybody can't do their own thing.'"

That rule did not appear to apply, though, to his buddy Motley, who pursued ever more quixotic ventures. When Motley sued the Saudi royal family for compensation on behalf of some victims of September 11—a highly speculative but well-publicized suit filed in August, 2002—Richardson decided that he had had enough. He led three of the firm's five other owners to leave and start their own practice. In total, 11 partners and 15 associates defected to Richardson Patrick. Rice, for one, says good riddance to the departing partners. "They lost all influence within Ness Motley," he says. "I'd be surprised if any of the senior partners are still in practice three years from now."

Rather than end the dispute, though, the defections only heightened it. Richardson Patrick filed at least four arbitration claims, arguing that the firm had been denied proper compensation for the Falcon jet, among other things. Ness Motley countersued, charging the defectors had cherry-picked its client list. "They improperly solicited our clients, and that's no way to do business," says Rice. Counters Richardson: "We have not gone one inch over the line of what's legal and ethical."

Not only money is at stake. The Ness name is one of the crown jewels of law in South Carolina—and now beyond. The judge's surviving family believes Ness Motley should give it up now that Richardson no longer works at the firm. Family members have joined him in suing Motley and Rice, whose firm is now known as Ness Motley, to drop the Ness name. Richardson says Rice agreed to relinquish it but then reneged. Rice dismisses the lawsuit as "silly," adding: "Why should they care what we are called?"

And so the acrimony and name-calling go on. The breakup hasn't mortally wounded either Ness Motley or Richardson Patrick; both continue to prosper. But fellow attorneys say the two will never wield the clout they did as one firm. And Ron Motley will be remembered not so much as a lawyer who fertilized a big institution but as one who left behind a big stink.

*By Charles Haddad
in Charleston, S.C.*

Finance

PRIVATE EQUITY

IRA RENNERT

How leverage made millions for a tarnished financier—and investors lost out

Few financiers can boast as long and lucrative a career as Ira L. Rennert. During the 1990s, the 68-year-old Brooklyn native sold \$1.5 billion in high-yielding junk bonds to create one of the nation's largest privately held industrial empires and built a personal fortune estimated at \$500 million. Now he may be about to hit his biggest payday yet: Investment bankers are shopping his crown jewel, South Bend (Ind.)-based AM General Corp., to potential buyers. The company makes Humvees for the U.S. Army. The civilian version, the Hummer, costs \$100,000 or more for celebrities such as Arnold Schwarzenegger and Andre Agassi. Rennert picked up the company for about \$133 million in 1992, but it has a hot seller on its hands now—the rugged \$55,000 H2 sport-utility vehicle. A sale could fetch him as much as \$1 billion, bankers say.

Rennert sure could use the money: His empire is on the ropes. Two of his companies—a Kentucky coal company and a Utah magnesium producer—have filed for Chapter 11 bankruptcy protection in the past two years. Two others, a steelmaker and a lead producer, both reported big losses in their most recent filings. "Rennert has a track record of dramatically leveraging up companies with debt," says Thomas A. Watters, an analyst at Standard & Poor's. "They're really financially distressed." On top of that, Rennert and his holding company, Renco Group Inc., face fines of up to \$1 billion if they lose a suit filed by the Environmental Protection Agency that charges the magnesium company with mishandling toxic waste near the Great Salt Lake in Utah. Renco is vigorously contesting the suit.

Already, the financial fallout from his companies has cost Rennert's investors hundreds of millions of dollars. The \$1.5



WINDFALL GAIN?
Rennert's Renco Group could fetch as much as \$1 billion from the sale of his privately held AM General, maker of hip Hummers for celebrities

HOUSE OF DEBT



billion in bonds his companies issued from 1992 to 1998 have now lost about \$700 million, or almost half their value, according to a rough tally by *BusinessWeek* of his companies' 10 bond issues. For example, the steel outfit's bonds are trading for as little as 26¢ on the dollar, while the lead company bonds have fallen to around 20¢. A Rennert spokesman disputes the figure, calling the calculation "overly simplistic and misleading," but didn't offer another one.

Some bondholders are gunning for Rennert. He became one of Corporate America's highest-paid chief executives in the '90s by taking a total of about \$500 million in dividends and management fees from his companies, according to a 2001 report from Barclays Capital Inc. and Securities & Exchange Commission filings. Now the bondholders are trying to get some of that back: On Jan. 16, AIG Global Investment Corp., Carlyle High Yield Partners, and hedge fund Citadel Equity Fund asked a Manhattan bankruptcy court to appoint a trustee to decide whether the transfer of dividends, management fees, and other funds from Magnesium Corp. of America to Rennert was legal. "We believe the transfers made it impossible for the company to pay its reasonably anticipated debts and may have rendered it insolvent," according to their lawyer, Gerald K. Smith, of Phoenix-based Lewis & Roca LLP.

Despite the carnage, Rennert has done very well for himself. He owns a plush duplex apartment furnished

with antiques and Impressionist paintings on Manhattan's Park Avenue near his Rockefeller Center headquarters. He has a palatial home in Israel and a Gulfstream 5 jet. And he's building a mansion, allegedly complete with bowling alleys and a huge garage, on 64.8 acres in tony Southampton, N.Y., for an estimated \$100 million. Still incomplete after five years, the 100,000-square-foot complex angered neighbors and inspired James Brady's novel, *The*

House that Ate the Hamptons.

This isn't the first time that Rennert's companies have run low on cash. *BusinessWeek* has learned that in 1962, when Rennert was a young securities broker running his own firm, I.L. Rennert & Co., in a Beaver Street office in Lower Manhattan, he was censured by the NASD for operating without enough capital. The NASD treats violations of federal rules requiring brokerages to be capitalized adequately as one of the most serious securities offenses because a lack of capital could leave clients in the lurch if a firm were to run out of money. Then, in 1963, the NASD caught Rennert with insufficient capital again, but it didn't give him another chance: It revoked his license on Nov. 29, 1964, according to securities regulators' documents, in effect banning him from the securities industry.

Today, nearly 40 years since he was ousted from the industry, Rennert denies he was punished by the NASD at all. Through a spokesman, he says he shut his firm voluntarily

RENNERT'S CHECKERED CAREER

1934 Born in Brooklyn, N.Y.

1954 Graduates from Brooklyn College, then gets an MBA from New York University in 1956.

1960 Starts his own securities firm, I.L. Rennert & Co.

1964 NASD revokes his registration.

1975 Emerges as a financier, arranging small leveraged buyouts.

1992 Issues his first public junk bonds to finance WCI Steel. Also purchases Humvee maker AM General.

1998 Begins construction of a controversial mansion in Southampton on Long Island.

2001 Two of Rennert's companies—Magnesium Corp. and Lodestar Holdings—file for Chapter 11 bankruptcy.

2002 EPA sues him, alleging that one of his companies in Utah broke environmental laws.

Data: Who's Who in America, BusinessWeek

and the NASD revoked his license as a routine administrative matter because he was no longer in business. "Due to market conditions, the firm found itself in violation of the net-capital rule," says spokesman Jon Goldberg. Rennert "raised capital and put it into the firm to bring it into compliance. Again the firm fell below the net-capital requirements, and he voluntarily shut the firm down." But former NASD lawyer Bill T. Singer, a partner at New York-based law firm Gusrae, Kaplan & Bruno PLLC, points out that "you don't revoke your license, you surrender it; there is no voluntary revocation." NASD rules specify that anyone whose license is revoked is not allowed to associate with

nert refashioned himself as a consultant for the next 11 years, according to his brief entry in the 2001 *Who's Who in America*. But it's not clear what type of consulting he did. In 1975, he emerged as a financier, arranging small leveraged buyouts and amassing an eclectic collection of unwanted companies that made everything from pet cages to butcher blocks.

In the late 1980s, Rennert became one of Wall Street's favored buyers of companies that no one else wanted. His first big deal was in 1988, when Renco bought a Warren (Ohio) steel company from its parent, LTV Steel Co., which was in bankruptcy, for \$140 million. He renamed it WCI Steel Inc. and turned it around with

A windfall couldn't have been better timed. As commodity prices started soaring in the late '90s, Rennert's company began choking on his borrowing binge. November, 2000, Lodestar Holdings Inc., his coal company, missed an \$8.6 million payment on its bonds. Four months later bondholders forced it into bankruptcy. His Magnesium Corp. followed a few months after that. Now, WCI Steel says it expects to report a pretax loss of \$3 million on sales of \$502 million in the fiscal year ended Oct. 31, 2002, according to an SEC filing. Says S&P's Watters: "We have a very low credit rating [on the company], indicating a high probability that WCI Steel will default on its bond-interest payments."

DUBIOUS HONOR

Rennert-owned companies are the 10th-largest polluters in the U.S., says the EPA. It also alleges his Magnesium Corp. in Utah illegally handled hazardous waste



any NASD firm "in any capacity."

In any case, Rennert never looked back. His license had been taken away, but that didn't prevent him from handling investors' money. Instead of selling stock, he eventually entered the free-wheeling world of private equity, which isn't regulated by the NASD or the Securities & Exchange Commission. That allowed him to sell millions in bonds to investors and use the borrowed money to build a portfolio of private industrial outfits in which his holding company, Renco, owned nearly all the shares. All the while, it was difficult for investors to learn that his securities license had been revoked decades ago. Only the bare outlines of what happened survive in NASD and state records.

Rennert's tale is instructive at a time when a growing legion of discredited star analysts and bankers, who symbolize the excesses of the '90s, are being banned from the industry or are under investigation. As Rennert's career shows, people who are penalized by the securities industry can easily—and legally—slip into other financial services and continue to take funds from investors.

After his license was yanked, Ren-

the help of \$250 million in junk bonds.

Soon, investment bankers were falling over themselves to issue bonds for Rennert. With blue-chip mutual funds and hedge funds such as Putnam Investment Management LLC and John Hancock Funds LLC lining up to buy his bonds, Rennert didn't need to put much of his own money into his deals, according to SEC filings. In 1992, he put down just \$10 million when he bought AM General for an estimated \$133 million. Now, with the military buildup in the Mideast boosting demand for Humvees and with the H2 selling well, he is listening to bankers who say it's a good time to sell. J.P. Morgan Chase & Co. is pitching AM General to private investment funds, including the Carlyle Group and Chicago-based Madison Dearborn Partners. General Motors Corp. has an option to buy 40% at the market price.

As commodity prices fell, his leveraged mining companies began choking on debt. Now some bondholders are gunning for Rennert

Environmental regulators and residents near some of his companies' factories also are hounding Rennert. Over a dozen lawsuits charge him or his companies with polluting lakes in Utah and land in Missouri. The EPA ranks the group of companies controlled by Renco as the nation's 10th-largest polluter.

All of the financial troubles will make it harder for Rennert to issue bonds again.

"If an entity controlled by Rennert returned to the high-yield market, it would be at best viewed with a high degree of suspicion," says Daniel Dienst, managing director of the corporate and leveraged finance group at Citigroup World Markets. But don't count on this ending Rennert's long career. A lot of forgotten NASD actions from decades ago still didn't.

By Emily Thornton with Susann Rutledge in New York, and David Welch in Detroit

New Lufthansa Miles & More[®]
VISA credit card. 800 437-0180.

Wherever you want to go, we can pinpoint your destination.

327 destinations in 89 countries.

With 15* U.S. gateways and the best on-time performance at our hubs in Frankfurt and Munich, Lufthansa is your ticket to the world. Add our 75 years of experience in providing attentive, award-winning service and you'll be sure to get wherever you want to go relaxed and on time. You'll also earn miles in Lufthansa Miles & More[®] or United Mileage Plus.[†] No wonder we're the world's number one choice for international travel. See your travel agent, call Lufthansa at 800 645-3880 or visit www.lufthansa-usa.com.

*Nonstop service Portland-Frankfurt starts March 31, 2003.

[†]In accordance with the terms and conditions of the programs.

There's no better way to fly.™



Lufthansa

A STAR ALLIANCE MEMBER



BANKING

FOR KOREAN BANKS, TRULY A GOLDEN STATE

They thrive serving loan-hungry small businesses in California

At the height of the 1992 Los Angeles riots, Korean-American banker Benjamin B. Hong paced up and down in his house just a few blocks from the trouble, wondering what to do as his customers' businesses were looted and burned. From his bookshelf, Hong pulled out a biography of Bank of America founder A.P. Giannini and read that, after the San Francisco earthquake in 1906, Giannini set up a temporary office on the waterfront and made loans to small businesses based on only a handshake. Hong told his branch managers to do much the same: offer existing customers loans of up to \$100,000 without collateral. Fifty customers took him up on the offer. Not one defaulted.

Such community support has turned Korean-American banks into some of the fastest-growing and most profitable financial institutions in the nation. There are now nine in Southern California—five trading on NASDAQ. In the past four years, their assets have doubled, to more than \$5 billion. That's still tiny by big-bank standards, but the success of these banks' highly local management, marketing, and ownership makes them fierce competitors. "They are a real American success story," says Alberto G. Alvarado, director of the Los Angeles office of the Small Business Administration.

But while the banks' performance has been impressive, investors haven't taken full advantage. The five listed Korean banks earned an annualized 18% on equity through the third quarter of last year, vs. 13% by similarly sized banks nationwide, says Sheshunoff Information Services. Still, they trade at just

10.2 times estimated 2003 earnings, vs. 11.6 for their peers, according to San Francisco brokerage firm Hoefer & Arnett Inc. "With their growth rates and the strength of their portfolios, they should trade at a premium to other bank stocks," says Scott W. Hood, a



PACIFIC WAVE

Banks run by Korean-Americans are doing land-office business in Southern California as the region's immigrant population soars

BANK	ASSETS	ASSET GROWTH SINCE 1999
HANMI FINANCIAL	\$1,425 mil.	92%
PACIFIC UNION BANK	\$949	59
NARA BANCORP	\$833	132
CENTER FINANCIAL	\$732	106
WILSHIRE STATE BANK	\$623	108

Data: CIBC World Markets, company reports

money manager at First Wilshire Securities Management in Pasadena, Calif., who owns stock in four of the banks: Hanmi Financial, Center Financial, Nara Bancorp, and Wilshire State. "They are in a niche that is not well understood."

The banks are getting a pop from a huge influx of South Koreans. The immigrant population climbed 35% in the 1990s, triple the rate for the population as a whole, and about 250,000 of the country's 1 million Korean Americans live in Southern California. They're the most entrepreneurial of U.S. ethnic groups, with one business for every

eight people, according to a November 2001, SBA report. Although they account for just 0.4% of the U.S. population, they control 11% of the nation's grocery stores and as much as a third of dry cleaners—small businesses that are often hungry for loans. And more than half of their businesses have accounts with Korean-American banks.

The Korean banks' international ties are another plus. In fact, the oldest of them, Pacific Union Bank, was founded by a South Korean bank back in 1906. These connections spur trade-related business such as money transfers, letters of credit, and loans—particularly for Los Angeles' garment district, which provides the banks with up to 20% of their business. Another source of customers: wealthy South Korean citizens investing in

apartment buildings, office complexes, and strip malls in places such as Los Angeles' bustling Koreatown. "Like Hawaii for the Japanese, Southern California serves as a satellite economy for South Korea," says Hong, now Nara's president and chief executive.

Challenges loom for the Korean-American banks. Bank of America, for one, is turning up the heat. Last year it launched its first Korean-language advertising campaign, running newspaper, radio, and TV ads in Southern California. More competition also is coming from new Korean-American banks; two have opened in Southern California since 2001. The result: The small premium that they once could charge on loans, compared with other banks, is now gone. At the same time, their heavy exposure to Southern California real

estate—60% of loans at some of the banks—could be a liability if that market tanks.

All this has the banks looking to diversify. So they're reaching out to far-flung communities of Korean American and other ethnic groups by buying or opening branches in New York, Chicago, and Northern California and by hiring tellers and loan officers who speak Spanish, Vietnamese, and even Farsi. After all, immigrants are a market these banks know well.

By Christopher Palmer
in Los Angeles

GET A FRESH START TODAY WITH CHARLES SCHWAB.

**For a limited time, we'll help you rebalance your portfolio
and include all recommended equity trades for a one-time fee.**



**Rebalancing plan.
Recommended equity trades included.**

Investors want a fresh start in the market, and Charles Schwab is making it possible for less than the cost of a single equity trade at many traditional brokerage firms. It begins with listening to you and your financial goals. Then we review your portfolio and provide you with a detailed report that evaluates your asset allocation and identifies common portfolio pitfalls such as sector and equity concentrations. Most importantly, we will deliver a rebalancing plan based on your needs with specific recommendations on what to buy, hold and sell. To participate, transfer \$25,000 to Charles Schwab and join the movement of investors who moved more than \$40 billion to us last year. Call 1-800-540-9874 or visit us at schwab.com.

Join the movement and get your fresh start.

CALL 1-800-540-9874

Call by February 28, 2003.

charles SCHWAB

You must respond by February 28, 2003, and be available to complete the appointment by May 30, 2003. Schwab will waive commissions and fees only for trade orders that Schwab recommends for equity positions held at Schwab and that you place in conjunction with the consultation. Net new assets exclude margin loans and transfers between Schwab accounts. For new customers, offer subject to account application acceptance by Schwab. Household balances of less than \$50,000 may trigger quarterly or annual account service fees in your account(s), depending upon account type. For household balance definition, other promotional details and limitations, see Fresh Start Terms and Conditions. Offer not transferable or valid in conjunction with any other Schwab offer. Open to U.S. residents only. One offer per household. Net new assets from January-December 2002 consist of Schwab's Retail individual investor assets and individual investor assets custodied at Schwab and managed by independent Investment Advisors. ©2003 Charles Schwab & Co., Inc. All rights reserved. Member SIPC/NYSE. (0103-7105). ADS24891.

INNOVATIONS

HERE YOU HEAR IT, THERE YOU DON'T

Will "directed" sound turn a San Diego company into a star?

Imagine standing in the frozen-food aisle of your supermarket, staring at a tub of your favorite double-fudge brownie ice cream. Suddenly, a voice comes out of nowhere to tell you there's a two-for-one sale on that very treat. But only you hear the message. In fact, the guy studying the cookie-dough choices 2 feet away is listening to a different ad—which you can't hear.

This scenario would be right at home in the dreamlike ad sequences of Steven Spielberg's *Minority Report*. But so-called directed sound may soon be accosting consumers in all kinds of real-life settings. A small San Diego company,

whose creations include a hands-free mobile-phone earpiece that he sold for \$5 million to San Diego-based JABRA Corp. in 1992. But in trying to turn HyperSonic into reality, he has burned through \$40 million of investors' money—including more than \$700,000 from his own pocket in the past two years alone. He hit one snag after another, prompting Wall Street to all but abandon him. ATC's stock has dropped from \$13 a share in early 2000 to around \$3.

Norris is so determined to get HyperSonic out of the starting gate that he vows to pour in more of his own money if need be. On Feb. 6, he even

or even dogs, can hear. These waves of energy interact with the air, creating audible sound that can be made to emanate from whatever surface they hit. Point the hypersonic unit at a wall, and the sound will come from the wall. Point it at a person, and he'll hear it as clearly as if he were listening to music through headphones. The sound can be shaped into a narrow beam that can be shot from a distance of up to 150 yards and will radiate out just 5 or 6 inches in diameter at the farthest point.

Norris says over 100 companies—including retail chains, restaurants, and carmakers—are evaluating ATC's system, which sells for \$300 to \$749, depending on the volume of the order and other factors. General Dynamics Corp., which helped fund ATC through the development process, has already bought and installed several units on two Navy aircraft carriers, including the new USS Winston S. Churchill. On the device is perched just above the captain's chair. "The bridge gets pretty noisy, but with this thing aimed right at the captain, he can hear important

SINGULAR SENSATION The promise of focused ultrasonic waves is making industries prick up their ears



ENTERTAINMENT YOUR FAVORITE TV SHOW COULD BE FOR YOUR EARS ONLY



SHOPPING THAT TEMPTING SNACK IS ON SALE—ON SALE FOR YOU, THAT IS



DEFENSE TARGETED CONVENTIONAL SOUND WAVES COULD BE USED TO DISABLE AN ENEMY

American Technology Corp. (ATC), has already begun shipping a product called the HyperSonic Sound system, which uses inaudible ultrasonic waves to create vibrant sound out of thin air. Its inventor, Elwood G. "Woody" Norris, believes it could be used in everything from military communications systems to home electronics. "What if you could watch TV in bed at 1 a.m.," he muses, "and aim the audio just at yourself, so your sleeping spouse hears nothing?"

Critics gripe that Norris has been lobbying "what ifs" like this at anyone who would listen for much of the past decade. Norris, 64, is a lifelong inventor

fired himself as CEO. Norris will stay on as chairman, and his old job will go to James Irish, a marketing vet whose experience includes launching products for Clorox, Lever Brothers, and News Corp. Irish says he didn't have to think twice about joining ATC. "The technology just blew me away," he says.

What's unusual is not the sound itself, but rather the way it can be controlled. Sound waves that humans can hear are unruly: They ripple outward in ever-widening rings and fade quickly as they float away from their source. The ultrasonic frequencies utilized by ATC's systems are higher than what humans,

messages without headphones," says Kenneth Winter, manager of strategic technologies at Bath Iron Works Corp., a shipbuilding division of General Dynamics.

The military is testing a second ATC invention to blast loud warnings at approaching vessels from 500 yards away. Unlike the HyperSonic system, this uses traditional sound. It narrows the scope and direction of the warning through an array of 85 tiny speakers, each of which emits sound in time bursts. The result: What is a mere whisper to the soldiers standing behind the sound's source is incredibly loud

BUSINESS TRIVIA QUESTION

Number 41

_____ is the company
that 400,000 businesses rely on
for e-commerce.

- ☐ (a) VeriSign
- ☐ (b) VeriSign
- ☐ (c) VeriSign
- ☐ (d) VeriSign

We're also the company that enables 7 billion network connections every day. VeriSign has spent the last seven years building a secure infrastructure for the Internet. We'd like to do the same for your business. VeriSign can help you deploy a trusted infrastructure so you can conduct secure communications and transactions. Soon you'll know why 475 of the Fortune 500 use VeriSign.

Learn all you need to know about infrastructure security – and how VeriSign's managed network and security solutions help you – by downloading our new Executive Portfolio on Digital Trust. Visit www.verisign.com/securitysolutions



■ PAYMENT SERVICES ■ TELECOMMUNICATION SERVICES ■
■ NETWORK AND SECURITY SERVICES ■ WEB IDENTITY SERVICES ■

©2004 VeriSign, Inc. All rights reserved. VeriSign, the VeriSign logo, and the VeriSign service mark and logo are registered trademarks of VeriSign, Inc. in the United States and in other countries.

a person in the speaker's direct path.

The same technology might be used as a nonlethal weapon someday. Crank the volume up to 155 decibels, and you can rattle an enemy's inner ear so severely that he'll fall to his knees with an instant migraine. In theory, such sounds may be tuned to produce other reactions, including vomiting and diarrhea. Such weapons have long been the dream of researchers, but making them work has been a bear. "The trick is controlling the sound," says John B. Alexander, a former U.S. Army colonel and nonlethal-weapons researcher. "ATC has made some big advances there."

Maybe so, but not without great pain to the inventor. An early version of the HyperSonic Sound system, for example, was way too soft to be heard clearly, forcing Norris back to the drawing board. Just after the technology was finally perfected and orders started coming in, ATC's contract manufacturer made several flawed units. Norris, meanwhile, developed a reputation as a bit of a fast talker—continually making promises he wasn't quite equipped to keep. "He'd be better off not being so optimistic when he talks to shareholders," says Jerry Polis, a private investor in Las Vegas who has poured more than \$1 million into ATC. Norris admits managing Wall Street's expectations has been challenging. "Honestly, it's tough to predict when you're going to have a breakthrough," he says.

The company lost \$8.2 million on \$1 million in sales in the fiscal year ended Sept. 30, 2002, prompting the company's auditor to attach a "going-concern" warning to ATC's financial statements. CEO Irish says his intention now is to bring some much-needed discipline and credibility to ATC.

To shore up its prospects, ATC recently sold \$4 million worth of shares in a private offering. And Irish vows to institute more efficient cost controls, manufacturing, and sales practices. Norris believes pending contracts for its sound technologies will generate more than \$5 million in sales over the next year. Early testers of HyperSonic systems include Sony Pictures, fast-food chain Carl's Jr., and Florida Power & Light, which uses them to keep birds from power lines.

With Irish on board and orders starting to trickle in, Norris believes ATC will complete its transition from idealistic startup to a legitimate player in the sound industry. "It was very difficult, but we're finally delivering," Norris says, barely containing his excitement as he gazes at a pile of boxes full of HyperSonic Sound systems. Now he just has to convince customers and investors they can trust the encouraging noises they're hearing from ATC.

By Arlene Weintraub in San Diego

Information Technology

TELECOMMUNICATIONS

POORER, BUT HAPPY TO BE HERE

Gear makers are battling back toward profitability

Six months ago, telecom-equipment makers seemed to be dinosaurs on the verge of extinction. Lucent Technologies Inc. and Nortel Networks Ltd. were whacking jobs, but not quickly enough, it appeared, to keep ahead of the cratering communications market. As losses mounted, shares of the two companies fell below \$1 and were in danger of being delisted. French rival Alcatel's credit rating was well below junk, reflecting fear of "a *crise de cashflow*."

Today, it appears that those so-called telecom dinosaurs were more like rhinos—ungainly, perhaps, but on track to survive. To their credit, the big equipment suppliers were not merely hacking out costs as rumors of their demise made the rounds. They also were fashioning smaller and more focused companies that could ride out the telecom storm. And now, they're in the process of stabilizing and returning to profitability by yearend.

Don't expect much fun or fireworks from the survivors, though. Companies emerging from the telecom depression will not only be smaller and leaner but also poorer. Revenue growth isn't likely to come close to the 20% level of the late 1990s. Analysts project a further 10% revenue slippage this year, followed by a flat year in 2004 and single-digit growth thereafter. The outlook for Europe is especially grim. Still, thanks to deep cost cuts, equipment suppliers can begin to produce operating profit margins in the 8%-to-10% range by yearend, says telecom-gear analyst Nikos Theodosopoulos, adding: "We expect to see the telecom-equipment market stabilize this year."

That tepid outlook raises questions about how much steam remains in the miniboom in telecom stocks. Lucent, Nortel, and Alcatel

shares have tripled since October. But are investors getting ahead of themselves? "We were wrong. Lucent will survive. But how much is it worth?" asks Robert Gensler, manager of the \$500 million T. Rowe Price Media & Telecommunications Fund.

The key to the turnaround is that the three-year plunge in telecom-equipment spending is finally lessening. In 2002, outlays were expected to fall a modest 5%—but they plummeted as much as 50%. "It was unprecedented," says Lucent CEO Patricia F. Russo. This year, Theodosopoulos expects a more modest 10% decline in spending. Why? U.S. traditional carriers have lowered capital spending,

as a percentage of revenue, to historic norms. Capital expenses are down to 16% of sales, from a high of 27% in 2001 and 2000. That means they are less likely to reduce their budgets as the year progresses. And Lucent, Alcatel, and Nortel, with costs under control, can likely avoid a cash crunch well into 2004. By then, the market should start growing again.

To survive, the telecom giants have had to carry out cost-cutting that has been nothing short of brutal. Over the past 12 to 18 months, Lucent has outsourced 90% of its manufacturing. By the end of the year, it expects to have cut its staff 71%, to 35,000, down from a high of 123,000 in 2000. By yearend, Nortel will have cut its staff by 62%, to 36,000, and Alcatel by 54%, to 60,000. "I can't even

think of another industry that has lost half its revenue in a two-year period. But we adjusted, and we will survive," Russo says.

Nortel CEO Frank Dunn agrees. "The industry's starting to stabilize, starting to get its feet on the ground," he said on a Jan. 23 conference call.

Competition is easing, too. Smaller rivals have gone out of business, and larger ones are more interested in partnerships than all-out war. Cisco Systems Inc., for example, long viewed as a fleet dinosaur hunter, has in the past two months struck resale agreements with Lucent and with SBC Communications Inc., the local-phone carrier. The Internet-equipment giant, which gets 20% of revenue from telecom carriers, announced on Feb. 4 a 50% rise in quarterly earnings on a 2% drop in revenue.

Executives at the slimmed-down giants have been busily positioning their companies for better days ahead, albeit in different ways. Lucent's Russo is driving the company along a path blazed by IBM, where she spent part of her career, in sales. Her cost cuts are reminiscent of those at Big Blue, where former Chairman and CEO Louis V. Gerstner Jr. eliminated 100,000 jobs. And like Gerstner, Russo is steering Lu-



**LUCENT'S
RUSSO:**
*Shifting
from
manu-
facturing
to services*



**ALCATEL'S
TCHURUK:**
*Betting
on
continued
diversifi-
cation*



**NORTEL'S
DUNN:**
*Focusing
on
next-
generation
technology*

cent away from manufacturing and toward services. The idea is to help telecom companies design, construct, and manage networks, regardless of whether they use Lucent gear. The gross margins on these consulting services, say analysts, should be well above Lucent's breakeven point in the mid-30% range.

Nortel is placing bigger bets on technology. The centerpiece is next-generation local-phone equipment. This will push optical fiber closer to homes and offices, making superfast Internet connections possible, especially for big corporate customers. Nortel is also focusing on telecom equipment for corporate offices, a market that Lucent abandoned. The risk for Nortel: These new markets could crash just as optical gear did. And like Lucent, Nortel also is pushing to extend its reach outside North America. Both companies get more than half of their revenue from the U.S., unlike the well-diversified Alcatel, which gets 18% of its \$17 billion revenue from the U.S.

Alcatel has cut down less dramatically than the North Americans. CEO Serge Tchuruk is weathering analysts' criticism by remaining in a host of businesses, from fiber optics to wireless phones. What's more, he gets 25% of revenues from areas outside of telecom, such as satellites and electronic components. Analysts complain that Alcatel lacks clear focus. But even as Tchuruk

announced on Feb. 4 fourth-quarter losses of \$1.2 billion, he stressed that diversification had cushioned the downturn. Alcatel's strength is in the DSL high-speed Internet technology, where it holds 50% of the global market.

Even with their recovery in the markets, these telecom companies' slimmed-down market caps could make them easy takeover targets. Lucent, with its \$12.3 billion in 2002 sales and blue-chip customer roster, is worth only \$6.6 billion. Nortel, with \$10.5 billion in revenue, and Alcatel have market capitalizations in the \$9 billion range. But antitrust regulation is likely to keep the North Americans from teaming up. Alcatel felt burned on an aborted takeover of Lucent two years ago, and powerhouse Cisco has little appetite for traditional telecom companies, says analyst Paul Sagawa of Sanford C. Bernstein & Co. Any great consolidators lurking out there are probably from outside the industry. In fact, Gensler says, it might make sense for an industrial conglomerate such as General Electric or General Dynamics to buy Lucent or Nortel.

Barring an unforeseen economic decline, prospects for a turnaround are good. If only the dinosaurs had adapted so well, you might still see one or two strolling around the Bronx Zoo.

*By Steve Rosenbush in
New York, with Andy
Reinhardt in Paris*

STEADIER DAYS FOR MAKERS OF TELECOM GEAR

After two bleak years in which revenues plummeted as much as 50%, telecom-equipment suppliers can breathe a little easier. Here's why:

JOB CUTS

They've ranged from 54% at Alcatel to 63% at Nortel and a hefty 71% at Lucent. The cuts are helping boost margins from the mid-20s to the high 30s.

MORE LUCRATIVE BUSINESSES

Lucent has shelved optical switching, where it sees no demand, in favor of higher-margin services. Nortel is focusing on new markets, such as metro phone systems.

BETTER FORECASTING

After years of cheery predictions, Lucent, Nortel, and Alcatel each forecast a revenue fall for '03. Now, they can cut costs more effectively, a key to restoring profits.

BROADER GLOBAL REACH

Lucent and Nortel are expanding their non-U.S. businesses, now under 50% of revenue. Alcatel already gets 85% of revenue from outside the U.S. All three are racing into China and India.

THE INTERNET

THE WEB IS FINALLY CATCHING PROFITS

Soon, more than 100 Net companies could be in the black

For once, the ever-tart Web site F**kedcompany.com, which keeps track of the death struggles of troubled companies, didn't have something nasty to say about a dot-com in its crosshairs. "Hey look," the site's proprietor, Philip Kaplan, noted in a posting on Jan. 28. "FC favorite Looksmart.com posted a profit. Weird." Indeed, LookSmart Ltd., a search engine company, bagged its first quarterly profit, \$3.4 million on \$31 million in sales.

In spite of the wretched economy and molasses-slow corporate spending on technology, profitable Web companies are no longer weird or even unusual. The tally of profitable Internet companies in the fourth quarter reached 84—more than 40% of the 208 publicly traded Net companies tracked by stock researcher Pegasus Research International LLC. That's up from 49 profitable dot-coms for the first quarter of 2002, the last time *BusinessWeek* conducted such a survey. In key areas such as e-tailing and online finance, profitability has become the rule rather than the exception. And those profits are measured by generally accepted accounting principles—no "pro forma" tallies need apply.

This means the much-maligned dot-com generation of tech start-ups is beginning to prove the skeptics wrong. Sure, too many companies were created during the boom times, and many have failed or are sure to expire or be acquired in coming months or years. But, by the end of the year, more than 100 of the public dot-coms will likely be showing a profit. Many of them are growing at healthy rates and have their business models clicking—finally delivering on the promise of harnessing the Internet to reach a vast online audience, eliminate the middlemen, or create Web-only businesses that never existed before.

Which of the sectors are making money? Take your pick. Auto

shopping Web site Autobytel Inc., financial news site MarketWatch.com, and Web search site Ask Jeeves joined the list of successes in the fourth quarter. Among the e-tailers that turned profitable in 2002 are



WELCOME TO THE CLUB

Over 40% of public Internet companies made a profit in the fourth quarter—that's 83, up from 49 at the end of last year's first quarter. Here are some that joined the club during 2002:

LENDINGTREE Online loan site rode the hot mortgage market and boosted the percentage of its visitors who close loans by 25%

LOOKSMART Search engine stopped selling banner ads in favor of advertiser-sponsored search results

AMAZON.COM The big difference was cutting fulfillment, marketing, technology, and overhead expenses to 16% of sales from 19%

UNITED ONLINE The Internet service provider made a profit by offering a cheaper alternative (\$9.95 a month) to America Online (\$23.90)

Amazon.com, Overstock.com, and iInteractive. And the public companies are only part of the story: Dozens of private Net companies have also come profitable, especially in online e-tailing. Among the success stories: photo printing and sharing site Shutterfly Inc. and jewelry retailer Blue Nile Inc.

While cost-cutting is a necessary part of the journey into the black, many of the profitable Net companies are also growing fast—and have a long way to run. For instance, Blue Nile's revenue grew 78% in the fourth quarter, to \$10 million, and the company expects to increase its \$72 million in sales last year to more than \$100 million this year, aided by a 100% jump in January sales.

"It's easy to just cut costs, [but] this time, growth in profits is accompanied by strong revenue growth," says UBS Bancorp Piper Jaffray analyst Safa Rashtchy.

And because of the nature of doing business on the Web, these businesses are poised to see their profits grow even faster than their sales. The key: Web technology can handle more business without the need to open new stores or bulk up on staffing. New profitable Digital River Inc., which manages online software sales for clients such as Home Depot Inc. and Staples Inc., illustrates how dot-com profits can grow rapidly once they arrive. Digital River's sales grew 35% last year, but its expenses were nearly flat. After barely turning its first profit in the third quarter, it reached margins of 15% in the fourth. Says CEO Joel A. Ronning: "We can handle 40%-to-50% revenue growth" without adding staff. A lot of it is letting the machines do the work."

Now that the dot-coms are making money, the market is paying attention. Since August, *BusinessWeek*'s Real World Internet Index of 20 top dot-coms, which included Amazon.com and eBay Inc., has beaten the Standard & Poor's 500 stock index by 18 percentage points. Investors who had their stomachs to buy at the bottom are now glad they did.

By Timothy J. Mullaney
New York

BusinessWeek online

For a list of profitable Net companies, go to the Feb. 17 issue online at www.businessweek.com

CREATE WIRELESS HISTORY



motorola.com/wireless-semi

IT LOOKS LIKE A PROCESSOR. IT ACTS LIKE A CANVAS.

The DragonBall™ MX1 integration platform from Motorola. It's the fifth-generation engine that drives the most advanced 2.5G and 3G multimedia applications – from PIMs to MP3s. In fact, 70% of the world's PDAs/Smart Handheld Devices use DragonBall microprocessors. The Motorola DragonBall MX1 platform offers best-in-class performance and battery life. And Motorola is the first global semiconductor supplier to announce on-chip Bluetooth™ wireless technology-ready support. The Dragonball MX1 platform. Everything you need to design with confidence and create your next great masterpiece.

DragonBall™ MX1



MOTOROLA
intelligence everywhere™

digitaldna*

Book Excerpt

SHOWDOWN



How
Hewlett-
Packard's
Carly Fiorina
prevailed in the
most expensive
proxy battle in
the history of
Corporate
America

in a new book (page 15), BusinessWeek Department Editor Peter Burrows describes the wrenching changes that Hewlett-Packard Co. has undergone in trying to regain its former glory. Despite the sky-high hopes that greeted her appointment as CEO in mid-1999, Carleton S. "Carly" Fiorina struggled to maintain profits and sales. Then, in September, 2001, she proposed the most dramatic move of all: a \$25 billion merger with floundering Compaq Computer Corp. When skeptical investors drove HP shares down 35% during the next three weeks, Walter R. Hewlett, son of co-founder William R. Hewlett, publicly came out in opposition to the deal, which required shareholder approval. That December, after the David & Lucile Packard Foundation threw its 10.8% stake against the merger, Fiorina faced an opposition armed with 18% of HP's shares before she had gathered one vote.

We pick up the story in early 2002, after Fiorina had decided to use whatever time, money, and legal tactics were necessary to win a fight she felt essential to HP's future. Her ultimate photo-finish victory says much about Fiorina—and about the daunting disadvantages facing any corporate disunity. Here's an excerpt from *Backfire: Carly Fiorina's High-Stakes Battle for the Soul of Hewlett-Packard*.

On the day of the shareholder vote, Mar. 19, approached, both sides knew they were in a dead end. Fiorina had experience selling to shareholders as well as tech buyers, having spearheaded HP's spin-off of Lucent Technologies Inc. in 1996. Sometimes, her ability to read investors was down to mystical. In one meeting, Brandes Investment Partners senior analyst Vinit Bodas had tried to quietly test Fiorina's willingness to take up the company. He'd simply asked for her personal thoughts about the printer business. "Believe me, I tell you that, I want to tell you that we're going to spin the printer business off," she said. "And I know who has put that idea in your head. It was Walter."

By the end of February, momentum had begun to shift in HP's way. Investors who just weeks before had been ridiculing the deal now seemed to be thinking differently. Rather than the damage the deal would do, they were growing more concerned with what would happen if Hewlett *did* kill it. "What I don't know is complete uncertainty," said Merrill Lynch & Co. portfolio manager Kevin Rendino. "If the deal is voted down, I don't know what I'm left with. I don't know if the deal will stay, if management will walk out the door, or what strategy will be. Sometimes the devil you know is better than the devil you don't." HP management had gladly let such fears fester, or even encouraged them.

And HP had celebrated a huge win on Mar. 5: After weeks of constant courting by both sides, Institutional Shareholder Services, which advises investors on how to vote on proxy matters, had recommended a "yes" vote on the merger. Roughly 25% of HP shares were held by ISS clients, HP would have surely lost the proxy fight without ISS's blessing. Hewlett was well ahead with individual shareholders, including HP employees. HP would win most of the top 10 in-

vestors, but just one or two defectors might be enough to win the day for Hewlett. Hewlett's advisers even hatched a plan to buy up to \$500 million worth of HP stock from shareholders who favored the deal. Hewlett nixed the idea. "If we won [by buying shares], how was I going to be able to walk into HP's boardroom and say, 'The shareholders have decided?'"

He would come tantalizingly close to getting the votes he needed. In late February, Spencer Fleischer, one of Hewlett's financial advisers, began lobbying Dean Barr, the chief investment officer of Deutsche Bank's investment arm. Barr told Fleischer that the bank's policy was to not meet with combatants in a proxy fight; its proxy committees would rely on publicly available information. But on Mar. 15, as Hewlett and his advisers were jetting between investor meetings, Barr told Fleischer that the bank's U.S. and European investment arms had voted to oppose the merger, according to a trial transcript from Walter Hewlett's March, 2001, lawsuit against HP. With more than 17 million shares, it was a huge victory.

That same day, an HP adviser got wind of Deutsche Bank's decision and informed HP Chief Financial Officer Robert P. Wayman. The news stopped the CFO in his tracks. He and Fiorina hadn't even bothered to visit with the bank. While

other Wall Street analysts had trashed the merger, Deutsche Bank's George D. Elling had been an enthusiastic supporter. HP had even handed the bank a \$1 million contract to investigate how other institutions were voting—including an extra \$1 million if HP won the proxy fight. What's more, Deutsche Bank Vice-Chairman Benjamin H. Griswold and a colleague had promised Wayman that the company would vote according to the ISS recommendation. Even on Mar. 15, they reassured Wayman "that everything is fine, that Deutsche Bank is supporting the merger," according to the trial transcript.

At that point, the so-called Chinese wall was



>> Investors began worrying what would happen if HP lost—and HP gladly let such fears fester

holding firm at Deutsche Bank—the wall that separated the investment managers, who have a legal obligation to their mutual fund shareholders, and its dealmakers, who provide financial services to corporations. The bankers are not supposed to have any influence over the investment gurus.

But that wall began to crumble on Sunday, Mar. 17, after Fiorina heard talk of Deutsche Bank's decision. That night, she called Wayman at his home and left a voice mail: "Hi, Bob. It's Carly. It's Sunday night. Call the guy at Deutsche Bank again first thing in the morning. You need a definite answer from the vice-chairman, and if it's the wrong one, we have to swing into action." The message ends with this now famous line: "See what we can get, but we may have to do something extraordinary to bring them over the line here."

On Monday, Wayman called his sources. Embarrassed, and no doubt worried about their banking contracts, one of them told Wayman the bad news. Wayman insisted that HP, having been misled, be given the opportunity to make its pitch. At that point, Griswold slipped through the Chinese wall and asked Barr on the investment side to set up a meeting with

Adapted with permission of the publisher John Wiley & Sons Inc. from *Backfire: Carly Fiorina's High-Stakes Battle for the Soul of Hewlett-Packard*, which will be available in bookstores in February, 2003. Copyright © 2003 by Peter Burrows.

Book Excerpt

HP. To maintain the appearance of fairness, they decided to try to meet with Hewlett as well.

Dean Barr's secretary called Fleischer at 5:30 a.m. on Mar. 19, the morning of the shareholder vote. They wanted to speak with Hewlett for 15 minutes at 7:45, just 15 minutes before the shareholder meeting was to begin. Since Hewlett would then be en route, they decided instead on a 6:30 a.m. meeting. It had to be quick, because the bank was going to speak to HP at 7. If the bank was going to change its vote, it had to do it before 10, when the proxy-vote polls closed.

At 6:30, Hewlett and Fleischer made an abbreviated version of their hour-long pitch. After they got off the line, Barr had a quick chat with colleagues, including Klaus Kaldemorgen, a member of the bank's European proxy committee. According to a transcript of the conversation later filed in court, Barr explained that he would ask them to reconsider their votes based on the two conference calls. "You may or may not be aware that we have an enormous banking relationship with Hewlett-Packard," Barr told them.

The bank officials remained on the line until Wayman and Fiorina joined the call. As usual, Fiorina shone. Whereas Hewlett had at times meandered and stammered, she was clear and persuasive, speaking in compelling sound bites. And she pulled no punches. When asked about Hewlett's alternative plan, she reminded them that "you must bear in mind that Mr. Hewlett's advisers have a large success fee tied to whether or not they can kill this merger."

Then she called up the old chaos theory: If not Compaq, then what? "The cost of a failed deal is real," she warned. Before hanging up, she uttered some words that would later fall under a legal microscope: "This is obviously of great importance to us as a company. It is of great importance to our ongoing relationship. We very much would like to have your support here. We think this is a crucially important decision for the company."

Then she left for the shareholder meeting.

With Fiorina and Wayman off the line, five Deutsche Bank officials began discussing what they had just heard. Barr brought up the point about Hewlett's paid advisers. "You've got to ask the question whether the dissident shareholder's advisers are in this really for the benefit of the shareholder or are they really trying to protect their own fee?" Barr said.

An unidentified speaker on the line then pointed out the obvious flip side of Barr's question, regarding the bank's role as an adviser to HP. "Do we know what the advisers for HP are getting now? I mean they—I didn't want to ask the question because I was afraid it might be us, but..."

"I believe the answer is we are one of the advisers," Barr answered.

"Isn't there some sort of performance fee associated with that as well?" the unidentified speaker continued.

"I don't—I have no way of knowing, and I'm not even going to ask the question," Barr answered.

It quickly became clear that Fiorina had managed to win the contest. One executive grabbed hold of the chaos theory theme. "I think it's disastrous, in a way," if the deal fails, she said. With that, they took another vote. This time, it came out 4-to-1 in favor of HP. After reiterating the need for careful documentation to explain the switch, Barr urged someone to

get the vote changed "as fast as humanly possible."

Before they hung up, Kaldemorgen got back on the line from Germany. Before he could get a word in, Barr complained that the U.S. unit had changed its vote. After "a considerable discussion with Carly Fiorina and Bob Wayman," the group had become concerned about "what happens if the merger doesn't go through." Kaldemorgen, clearly not buying the change of heart, shot back. "Well, I first disagree with that," he said. He pointed to the fact that HP's stock rose whenever there was news that put the deal in doubt. But others quickly jumped in. One cited how impressive Fiorina and Wayman had been, and worried that Fiorina and some directors would quit. Kaldemorgen held his ground but Barr broke in: "The group here has changed the vote. Obviously if you don't want to change your vote, that's your call.... I'm not trying to put undue pressure, but make sure that you have a very strong documented rationale for why you voted the way you did as it relates to this merger. This is extremely sensitive to people like... Dr. Ackermann."

The mention of Josef Ackermann, the bank's chairman, seemed to do the trick. Kaldemorgen immediately changed



**HEWLETT
WOULD COME
TANTALIZINGLY
CLOSE TO
GETTING THE
VOTES HE
NEEDED**

defiant tune. "I don't want to be smarter than you people in New York. So if the majority of the votes came to the conclusion that it's better for our customers to vote in favor, I'll try to change our vote here."

A few days later, Fiorina called Griswold to thank him for arranging the conference call. "Thanks for going to bat for us," she said, according to the trial transcript. "I know, I'd like to thank you personally. Look forward to doing business with you in the

>> "We may have to do something extraordinary to bring them over the line," Fiorina said of Deutsche Bank

future." Three days later, a colleague advised Griswold to erase the message, which he did.

In so many ways, it was a prime example of the difficulty of being a shareholder—even one with Walter Hewlett's money and name—has in taking on the corporate world. Just days before the same group of Deutsche Bank representatives had been so strongly enough to break from corporate policy and not follow HP's recommendation. What was different? They'd heard pitches from each side, to be sure. But was it any wonder that a career salesperson and a veteran CEO would find a more compelling job in 45 minutes than an "academic and intellectual" such as Walter Hewlett would do in 15? More likely the switch had less to do with the merger's merits and more to do with the fact that banking business was at stake.

In the end, Deutsche Bank's flip-flop probably did not decide the proxy fight. HP, which prevailed by just 3%, probably won by a slightly larger margin than the bank's total holdings. But it was a fitting, final skirmish in a messy affair. Fiorina had played her cards right. Her victory was not a testament to the deal, or to investor confidence in her. It was a testament to her ability to play the game, to win the fight. Whether it will be good for anyone else remains to be seen.



alaskaair.com

Every year Alaska salmon struggle to make it back home.
Not unlike the modern traveler.

Travel these days can test your endurance. Thankfully, things are a little easier with alaskaair.com. For example, with our 24-Hour Web Check-In, you can print boarding passes from your computer up to 30 hours before your flight. This lets you walk past check-in lines at the airport, plus you earn 500 Bonus Miles. Also, at alaskaair.com you can check for available upgrades, make seat selections and much more. So use 24-Hour Web Check-In at alaskaair.com on your next trip and leave the struggle behind.

GUIDED BY THE SPIRIT OF ALASKA.





Take one cup to
REDUCE
pollution.

Every time a company makes a product, they also make pollution. Every time you make a purchase, you could reduce some of that pollution. 'Cause when you buy durable and reusable products to use at home there's less to throw away. And less to replace. For a free shopping guide, please call 1-800-2-RECYCLE.

BUY SMART.

WASTE LESS.

SAVE MORE.



www.environmentaldefense.org

e

ENVIRONMENTAL DEFENSE

changing the way we live

EDITED BY ADAM ASTON

UPER SPECTRUM'S BUT AT E SUPER BOWL

OF AIRSPACE OVER THE Super Bowl in San Diego last month was restricted because security concerns. But ABC was prepared for that. Its high-definition TV camera on a ledge half a mile from the stadium beamed beauty shots of the surrounding scenery or a wireless link to an ABC camera in the stadium, which beams the pictures into the broadcast.

The images may not have been memorable. But the technology used to transmit them could make a big splash. ABC enlisted Loea Corp. of Kaneohe, Hawaii, to rig the antenna in the hills. Operating on a very high-frequency slice of the radio spectrum, 71-76 gigahertz, Loea transmitted wideband-hogging HDTV pictures at 1.45 gigabits per second—about 1,000 times the rate of many home broadband connections. Since there was no need to compress the images at this speed, “there was no delay whatsoever,” explains Mike Stein, ABC’s managing director for technology.

The Super Bowl was the first commercial use of this spectrum. But other applications will follow once the Federal Communications Commission draws up rules for its use. For example, Loea CEO Louis S. Slaughter sees the technology replacing costly fiber-optic links among office buildings. *Neil Gross*

A MUSCLE SUIT YOU CAN STRAP RIGHT ON

CALL HER ROBO-NURSE. WHEN Yasue Tsukui straps into a prototype Power Suit, its computer-controlled, air-driven limbs multiply her strength dramatically. The 95-lb. engineering grad student can carry a 150-lb. man without breaking a sweat. A refined version of the suit promises to make it easier for nursing-home attendants to shift patients or for construction workers to haul armloads of two-by-fours.

Credit for this robotic suit goes to the man in Tsukui’s arms, Keihiro Yamamoto, a professor of welfare-systems engineering at the Kanagawa Institute of Technology near Tokyo. His breakthrough came five years ago

when he perfected forerunners of sensors that line the suit’s arms, back, and legs and relay muscle activity data to a small computer. This backpack-mounted brain, in turn, instantly regulates how much air should flow to or be prevented by high-pressure air bags that are connected to an on-board air pump.

As they inflate and deflate, the air bags add force to the wearer’s efforts and help maneuver the 45-lb. suit.

Next, Yamamoto plans an improved version of the



suit that should sell for \$1,700 or less. He also hopes to develop similar but smaller devices to restore strength and mobility to people with disabilities. *Irene M. Kunii*

NANO MEMORY CHIPS PROMISE JUMBO PERFORMANCE

UNTIL CHEAP INTEGRATED circuits came on the scene in the late 1960s, computers relied on electrically activated mechanical switches to store data. If Woburn (Mass.) startup Nantero Inc. has its way, memory may soon return to its electromechanical roots—but this time, it will be on a nano scale.

Nantero’s nonvolatile random-access memory (NRAM) uses single-walled carbon nanotubes just 20 nanometers, or billionths of a meter,

wide. The tubules are laid out in a grid, with those running in one direction suspended a few nanometers above those running the other way. When opposite voltages are applied to a perpendicular pair of tubules, the upper one bends until it makes contact with the lower. Touching tubules have a different electrical resistance that can be read as a “1,” while noncontact is a “0.”

This binary grid promises to outperform current memory chips. Nantero says NRAM can pack 5 billion bits of data into a square centimeter—several times the density of today’s high-capacity memory chips. Plus, the NRAMs can be read 2 billion times per sec-

ond, about five times as quickly as the fastest memory chips now in common use. And the devices are nonvolatile, meaning their contents are retained even when power is off. Such performance suggests that NRAM could make a superior substitute for the flash memory in most digital cameras and cell phones. It could also be used for the specialized high-speed RAM used in PCs.

Nantero is currently talking with chipmakers about manufacturing NRAM, which can be fabricated in existing chip plants. Chief Executive Greg Schmergel says that the new devices could be on the market in as little as two years. *Steve Wildstrom*

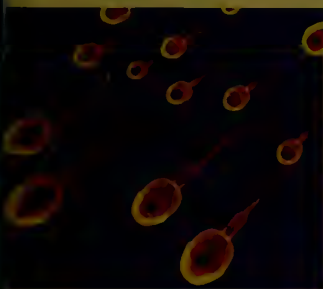
MEN: YOUR CLOCKS ARE TICKING

IT SEEMS THAT MEN HAVE their own biological clock—and it starts ticking early. Researchers from Lawrence Livermore National Laboratory and the University of California at Berkeley have discovered that the speed

and liveliness of sperm, called motility, starts dropping when men are in their 20s by about 3.1% a year—far earlier than had been suspected. The chances of clinically abnormal motility is 25% by age 22, 40% by

age 30, and 60% by age 40.

The researchers based their finding on a study of 97 healthy volunteers age 22 to 80. “Women tend to be the focus in fertility issues,” says Berkeley professor Brenda Eskenazi, a co-author. “But men are not so free in this.” *Cathy Arnst*



DEFENSE

SORRY, THE BOSS IS IN BAGHDAD

The reserves are acquiring a higher executive profile

When Todd and Teresa Uterstaedt returned to their Cincinnati home after a holiday trip in January, 2002, the newlyweds found an ominous FedEx package waiting for them on the kitchen counter. Inside were orders for Todd, a 34-year-old ex-military intelligence officer and Army reservist, to deploy—fast. Uterstaedt, a vice-president at organizational consultancy Right Management Consultants, had 10 days not only to get his personal affairs in order but also to brief clients and match them up with other consultants. For his colleagues and boss, it meant a frenzied scramble to deal with Todd's orphaned workload and easing in his new temporary replacement. "I left behind six or seven high-level projects," says Uterstaedt. "It put a big burden on my co-workers."

Corporate America has little trouble plugging holes when a military call-up involves low-to-mid-level workers. All companies have to do is tap a temp agency and raid the legions of eager unemployed. It's far more daunting when a key executive or manager has to be replaced virtually overnight. Yet increasingly, as warfare evolves from a solidly guns-and-ground-troop affair into high-tech mastery and intelligence-gathering, the reservist call-up is changing, too.

The warriors of the 21st century are increasingly white-collar. More than 60% of reservists surveyed in 2000 by the Defense Dept. say they work in the corporate world, and a growing number come from the managerial ranks. While



strategists, and commanding officers. And with domestic security issues at the front burner, more of these specialists could be called to pull some duty in the new Homeland Security Dept. Already, according to the Employer Support of the Guard & Reserve, a volunteer group that helps companies cope with reservist issues, are up so 50% in the past year, making

OVER THERE:

HR VP Uterstaedt was gone for 11 months

from companies dealing with management-level reservists for the first time.

The biggest issue for companies and reservists alike: pay. Because companies aren't required to maintain salaries, reservists

the Defense Dept. doesn't collect specifics, reservist associations and human resource consultants say the number of management types called up in the past year outpaces those activated in the Persian Gulf War by an estimated 20%. And a higher percentage of the 111,600 reservists now on active duty are officers, says John O'Shea of the reserve Officers Assn. Senior military rank typically translates into a senior role in the civilian world. "The makeup of reservists is evolving to [more] highly skilled, higher-earning individuals with bigger job responsibilities," says Gary Peck, president of the Staffing Group of Spherion Corp., a human resources and staffing firm. "They are leaving a bigger hole behind."

The challenges to corporations could soon get worse. With an estimated 250,000 more reservists expected to be activated if the U.S. declares war on Iraq, more senior-level employees who once served in the military full-time may get their marching orders to serve as intelligence officers, doctors, covert-ops

can lose up to half their wages. Mid-level officers pull in about \$3,000 to \$5,000 a month, which hardly covers the jump in mortgages and car payments many of them shoulder in civilian life. Not to mention the loss of the yearly bonus—the big money for many consultants and bankers. During the gulf war, companies didn't go to the same lengths they do now to make up for lost pay or benefits. Today, though, a growing number, including J.P. Morgan Chase, AstraZeneca and Pfizer, offer 6 to 12 months or more of pay to supplement lower military wages, along with continued health care for families. IBM even sticks to scheduled raises, vacation time, 401(k) matches, and profit sharing—and will make up for lost pay indefinitely.

Employment lawyers advise companies to draw up plans for a reservist exodus, which could last a year or even two. Losing high-level staff is always a challenge—now add to the problem the unpredictable departure of the country's many manager-warriors.

By Jennifer Merritt in New York

WORK TO WARFARE

Going beyond what's required by law for employee reservists can create loyalty and continuity for a company. Some best practices for dealing with called-up reservists:

Data: BusinessWeek

MAKE THEM WHOLE

Pay the difference between military salary and the employee's current salary for 6 to 12 months

MAINTAIN BENEFITS

Keep up health care for the employee's family and continue payments to stock and pension plans

STAY CONNECTED

Provide a link—intranet or newsletter—to the goings-on in the company and changes in the employee's department

FAMILY OUTREACH

Offer support to left-behind family through extended assistance programs and personal follow-up

BMW
Certified
Pre-Owned

bmwusa.com
1-800-334-4BMW



The Ultimate
Driving Machine

Certified curve seeker

Certified grin maker

Certified driving purity

Certified throttle response

Certified go

Certified Pre-Owned BMW

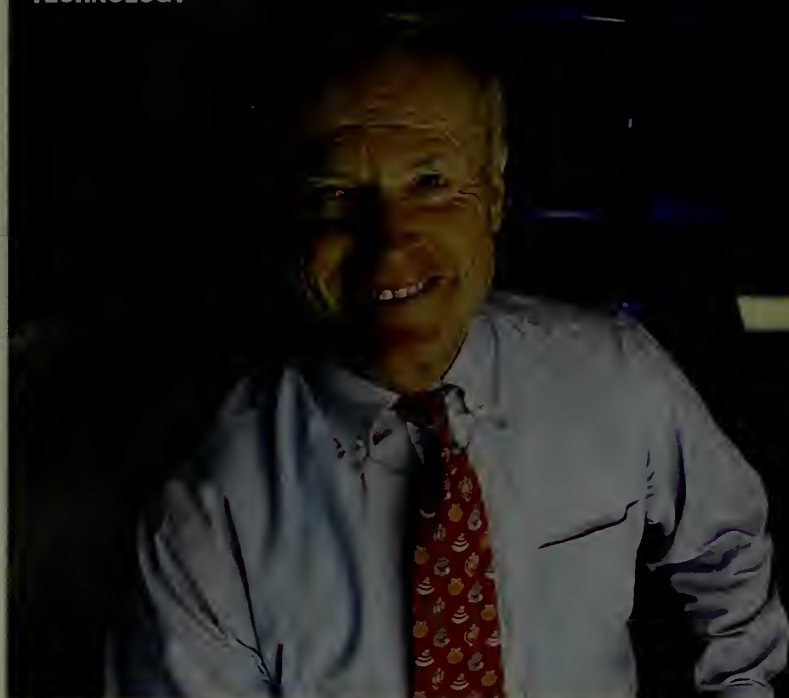


Certified only at an authorized BMW center.

Warranty protection* up to 6 years or 100,000 miles. Get flexible leasing and financing options. Get pure BMW.

Certified Pre-Owned
by BMW

NEAL BLUE:
"I SAW THE
POTENTIAL FOR
A BIG LEAP IN
TECHNOLOGY"



INNOVATION

A PREDATOR THAT PREYS ON HAWKS?

General Atomics' unmanned plane is
on Northrop Grumman's tail

They were an emblem of American optimism in the Eisenhower era. The cover of *Life* magazine for Apr. 8, 1957, featured "The Flying Blue Brothers," two blond, crew-cut Coloradans, fresh from their Yale University dorm rooms, piloting a Piper Tri-Pacer alone over the Andes. For nine pages inside, the brothers—Neal, 21, and Linden, 20—are seen cavorting with headhunters in the Amazon, trying to right their crashed plane on a mountain ice shelf, and later, lounging on Ipanema Beach with a comely brunette. The world, it seemed, was filled with possibilities. And for the Blue brothers, indeed it was.

Nearly a half-century later, the entrepreneurial duo have made their fortune in real estate and energy. The brothers, who briefly ran a cocoa-and-banana plantation in Nicaragua with the family of former President Anastasio Somoza, now have an empire that includes natural-gas wells in Canada, a streetcar manufacturer in Germany, and hundreds of acres of ranchland outside the resort town of Telluride, Colo. In 1986, the Blues added General Atomics, a nuclear-power research company, which they bought from Chevron for \$50 million. Neal Blue, 67, is chairman and CEO. Linden, 66, is vice-chairman.

But it is another of the Blue brothers' businesses that is making headlines. General Atomics also makes the Predator unmanned spy plane. Like the P-51 Mustang in World War II or the Stealth Fighter in the Persian Gulf War, the Predator has come to epitomize American ingenuity in battle. The Predator played a key reconnaissance and attack role in Afghanistan and last November was used to kill al Qaeda operatives in Yemen. And it would probably be an important weapon in a war against Iraq, helping to hunt down and destroy Saddam Hussein's Scud missile launchers.

The Predator could also be a major headache for Northrop Grumman Corp. The nation's No.2 defense company makes the more technologically advanced and far more expensive Global Hawk drone. The U.S. Air Force is committed to buying both planes. But the Predator's capabilities are expanding, while Congress has raised questions about the Global Hawk's spiraling price tag. At \$35 million, it is almost eight times as much as the Predator's. The develop-

ment of the smaller, cheaper plane shows how even in an age of \$300 billion Pentagon budgets, nimble entrepreneurs shake up the Establishment.

The military has pursued unmanned aerial vehicles since the Civil War, with both sides floated bomb-laden balloons toward each other. During the Vietnam War, drones were deployed for reconnaissance, but it was often difficult to recover data. Subsequent models were derailed by other technical difficulties. But Neal Blue, the brother who concentrates on General Atomics' aerospace business, believed that could change with computers, digital data storage, and global positioning satellites. "For 4,000 years, people have been trying to figure out how to hit the target," says Blue. "I see the potential for a big leap in technology."

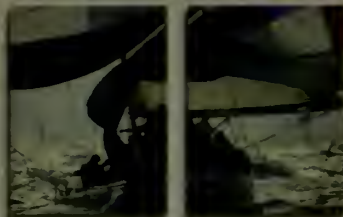
Blue had the money to back up his belief—and a keen sense of how to spend it wisely. Frederick W. Hill, Neal Blue's partner in buying his Canadian oil and gas assets, recalls a time in the mid-1980s when managers were suggesting a big hike in the company's drilling budget, based on projections of \$30-a-barrel oil prices. Blue told the group to go back and recalculate.



THE BLUES, 1957

The company cranks out two Predators a month. One analyst likens it to "a speed shop where they hand-build hot rods"

Multi-million dollar yacht



America's Cup champion

IT'S TIME FOR EXPENSIVE TO GET REACQUAINTED WITH VALUABLE.

Mercury Interactive can transform your IT systems from an expense into a valuable asset.

Your company's software applications and IT infrastructure are a huge investment. And now there's a way to get more value out of your existing information technology. It's called Business Technology Optimization (BTO). It's the way to maximize the quality of your IT-enabled business processes, minimize IT expenditures, and increase the return on your existing IT systems. Mercury Interactive's Optane™ is the world's first BTO software suite. Optane enables you to optimize the entire technology lifecycle — including testing, production tuning and performance management. Mercury Interactive is one of the top software companies in the world and 75% of the Fortune 500 already use our software. To optimize your business technology, visit www.mercuryinteractive.com/bto2



©2003 Mercury Interactive Corporation. Mercury Interactive, the Mercury Interactive logo and Optane are trademarks or registered trademarks of Mercury Interactive Corporation in the United States and/or select foreign countries.

The Corporation

numbers based on \$12 a barrel. The budget was not increased, and the price of oil later plunged to \$10. "That would have put us under," Hill recalls. "Neal's very good at long-range thinking."

His interest in drones accelerated in 1987 when he hired Thomas J. Cassidy Jr., a former Navy rear admiral, to pursue advanced technology projects. Some four years later, they swooped in and purchased Leading Systems Inc., a floundering drone business. In 1993, when the Defense Dept. put out a call for new unmanned aircraft, Blue

paper, graphite, and other materials layered and baked together in a special oven. Without spy gear and weapons, each plane weighs a mere 1,130 pounds—40% as much as a Volkswagen

Beetle. "It's like a California speed shop where they hand-build hot rods," says Glenn Buchan, an analyst at Rand, a Santa Monica (Calif.) defense think tank. Nearly a third of the planes have crashed or been shot down—a loss rate that is palatable because Predators

that they need more than one type of drone. One of them is Northrop's Global Hawk, which is also unmanned but at much higher altitudes—up to 65,000 ft., vs. 25,000 ft. for the Predator—take off from farther away, and can carry more sophisticated surveillance gear. Robert Mitchell, head of the Global Hawk program at Northrop, scoffs at the idea that the Predator is competitive. "Isn't that a paper airplane?" he jokes. "We don't see many of those at our altitude." Since Northrop bought the Global Hawk's maker, Ryan Aeronautical Systems, in 1999,

DUELING DRONES

and Cassidy quickly turned a Leading Systems prototype, the Gnat 750, into the Predator. Cassidy stuck to off-the-shelf parts, using cameras made for traffic helicopters and a Bombardier engine originally designed for snowmobiles. Giving the Predator a propeller instead of jets was not only cheaper but allowed it to remain nearly stationary while aloft. A Predator can linger for a full day at 25,000 feet while it records and relays data. "One of the reasons we've been successful is we try to avoid science projects," Cassidy says. "We don't want never-ending research and development efforts."

Cassidy knew from his days flying fighters in Vietnam that a drone would be easier to sell to the Air Force if it included a role for pilots. So from take-off to landing, the Predator can be steered with a joystick by a pilot sitting in a trailer hundreds of miles away, a solution that was also relatively cheap. The first contract was awarded in January, 1994, just two months after Washington put out the call. The rollout took place under a new Pentagon initiative aimed at speeding up weapons procurement. The Predator saw combat in the Balkans 17 months later—record time in a business where weapons can take decades to develop.

General Atomics has built 82 Predators to date, cranking out two a month in a suburban San Diego office park. They are assembled out of honeycombed

	GLOBAL HAWK	PREDATOR
COST	\$35 million	\$4.5 million
MAXIMUM ALTITUDE	65,000 feet	25,000 feet
FLYING TIME	36 hours	40 hours
SPEED	391 mph	135 mph
PAYLOAD	2,000 pounds	450 pounds
WINGSPAN	116 feet	48 feet
PLANES MADE	7	82
PLANES LOST	3	27

Data: Company reports, U.S. Air Force

cost only \$4.5 million each and are unmanned. Air Force officials say they plan to buy about 70 more. "We lost one two weeks ago, and it was on page six of *The Washington Post*," says Lieutenant Colonel Douglas Boone, deputy secretary for acquisitions at the Air Force. "If that had been a [manned] F-16, it would have been page one."

The Predator began as a spy plane. But when General John P. Jumper, now Air Force chief of staff, noted the frustration of locating targets but being unable to hit them in the Balkans, Predators were adapted to carry missiles. A follow-on version, Predator B, is in the works: It's bigger, faster, and carries more weapons and spy gear at greater altitudes. The company developed Predator B with no Pentagon funding. In December, Washington ordered two of them at \$7.8 million each. Says Neal Blue: "We don't have committees. We tell people, 'Don't wait for someone else to be sold on your project.'"

Pentagon officials, meanwhile, insist

it has built seven of the planes, three of which have since crashed.

The Air Force says it wants 51 Global Hawks, but it won't be easy to get them. For one thing, the per-plane price has skyrocketed nearly fourfold as the Air Force sought upgrades for the latest radar, cameras, and targeting devices. The upgrades required stronger engines, greater electrical capacity, and even a new wing design. The Air Force has proposed

scaling back the technology on some planes to cut the cost. But some military strategists think the Pentagon might scrap the Global Hawk in favor of a newer, harder-to-hit plane. In the meantime, says Loren B. Thompson, an analyst at the Lexington Institute think tank: "The business potential of the Global Hawk is not yet clear. The Predator's market and limitations are not yet understood."

Indeed, the Predator's market is robust and growing. Privately held General Atomics says its revenue from the drone business totals about \$150 million annually. Neal Blue won't divulge profits but insists that the Predator is making money. In fact, industry sources say other contractors are buzzing around General Atomics with buyout offers. Forget what Blue says. "This is fun the way it is," insists, still sounding like the kid who once flew over the Andes with his little brother, facing a world of possibilities.

By Christopher Palmieri
in San Diego



You can't always control
how they use office supplies,
but you can control
overall costs.



Here's a wake-up call: While office products are typically 12% of supply budgets, they can account for 70% of transactions. That takes a lot of your associates' time. And up to half of their purchases may cost 15% more than you expected. Boise Office Solutions can help. Our unique Customer Insight ReportsSM show you who's ordering what, when and how. So you can really control expenditures. And our easy, personalized ordering system saves valuable time. For eye-opening proof on how we can save you money, call **1-888-BOISE-88**. **Boise. It Couldn't be Easier.[®]**

BOISE

Office Solutions

OFFICE PRODUCTS • TECHNOLOGY • FURNITURE • OFFICE PAPERS

COMMENTARY

By Kathleen Kerwin

HYBRIDS: HOW DETROIT CAN GUN THE ENGINES

General Motors Corp.'s launch of its EV1 electric car in 1996 stands as a stark reminder of how hard it is to sell consumers on new technology. True, GM mustered a memorable TV ad that showed household appliances celebrating the car's arrival. But it fumbled nearly every other aspect of the marketing, driving the car to a speedy death with a steep price, lease-only deals, and a forbidding application process.

Now, GM and its rivals have another

FORD
ESCAPE

chance, as hybrid cars combining gasoline and electric power finally get ready for prime time. This time the stakes are much higher, since the new hybrids aim far beyond the die-hard environmentalists targeted by the EV1 and first-generation hybrids like the Honda Insight and Toyota Prius. The new wave includes hybrid versions of familiar brands like the Honda Civic compact or Ford Escape small sport-utility vehicle (table). Carmakers hope to expand hybrids to minivans, traditional SUVs, and family sedans. Says Walter McManus, an auto analyst at J.D. Power & Associates: "The experiences people have in the first few years will be critical to whether hybrids reach a mass market."

The EV1 experience showed how easy it is to get it wrong. Here's how to get it right this time:

■ **Explain, explain, explain.** Auto makers must go way beyond their usual advertising schtick to explain the technology and allay fears about the reliability of new gadgetry. That starts with taking nothing for granted

about what consumers know. "The biggest misconception people have is that the vehicle has to be plugged in," says Christine Feuell, Ford Div. SUV marketing boss.

A few carmakers are talking the right talk. Toyota Motor Corp. will prepare for its Lexus RX hybrid SUV with an 18-month campaign that carefully lays out its technology. But with the category not yet established, other carmakers are about to create monumental confusion by slapping the tag "hybrid" on vehicles that boost mileage by barely 15%, compared with roughly 50% for true hybrids. That could disappoint buyers and create a bad vibe for the entire category. Warns Mike Wells, Lexus' marketing manager: "Others

■ **Aim hybrids at those who can afford them.** Hybrids' sticker prices run several thousand dollars above traditional models'. Even with big savings at the gas pump and a federal tax break, it can take a decade to recoup the price premium. And most people will pay only \$600 to \$800 more for a hybrid, according to J.D. Power surveys.

Auto makers also need to move hybrids beyond entry-level cars more quickly. Honda Motor Co. cites price resistance as a reason that sales of

HONDA
CIVICComing to
A Dealer Near You

Combination gas/electric power systems are showing up in some popular car and truck models

HONDA CIVIC	March, 2002	The first mainstream hybrid, this compact sedan gets 48 mpg
FORD ESCAPE	Mid-2004	Crossover SUV will nearly double its mileage, to 35-40 mpg
LEXUS RX	Fall, 2004	V-8 performance from V-6 engine in a luxury SUV

Data: BusinessWeek, company reports

LEXUS
RX 330

may rush to market and make compromises that could have a devastating effect on this technology's success."

The industry must mount a solid educational effort so that consumers know just what they're buying. Enlisting independent parties like J.D. Power or the Sierra Club to set hybrid standards would help, too.

its \$20,000 Hybrid Civic still fall a few hundred vehicles short of its goal of 2,000 a month. "The Civic market is the one least able to afford the technology," admits Thomas G. Elliott, executive vice-president of American Honda Motor Co. By offering the hybrid option on upscale models, carmakers could pull in higher-end buyers who feel strongly enough about conservation to pay a little extra.

■ **For those who pay more, offer the visual cues that prove they're special.** Let's face it: A key appeal of high-end hybrids will be to give well-heeled buyers a clear conscience as they drive their hulking SUVs. So let those buyers broadcast their earth-friendliness. The discreet three-inch hybrid labels carmakers place above the rear bumper are way too easy to miss. By contrast, Lexus may give its hybrid a different grille, wheels, or taillights to set it apart from its internal combustion cousin. That's more like it. After all, where's the cachet in environmental chic if nobody notices?

Kerwin is Detroit bureau chief.

Is there something you don't know
about your *cost structure*?

Are there leaks in your cost structure? Do you know where those leaks are? If you're working with Business Objects, you'll know. Our business intelligence software gives you instant visibility on costs throughout your organization, and in all your customer and supplier relationships. So you'll have the intelligence you need to keep your costs under control. And your profits from trickling away. Business Objects is the world leader in business intelligence software, with over 15,000 customers. To find out what they know that you may not, visit www.businessobjects.com/finance. And download our free white paper "Business Intelligence – Now More Than Ever." Or call Business Objects at 1-800-527-0580 ext. 35.



BUSINESS OBJECTS®

Business Intelligence. If you have it, you know.™

COMMENTARY

By Kathleen Kerwin

HYBRIDS: HOW DETROIT CAN GUN THE ENGINES

General Motors Corp.'s launch of its EV1 electric car in 1996 stands as a stark reminder of how hard it is to sell consumers on new technology. True, GM mustered a memorable TV ad that showed household appliances celebrating the car's arrival. But it fumbled nearly every other aspect of the marketing, driving the car to a speedy death with a steep price, lease-only deals, and a forbidding application process.

Now, GM and its rivals have another



**FORD
ESCAPE**

chance, as hybrid cars combining gasoline and electric power finally get ready for prime time. This time the stakes are much higher, since the new hybrids aim far beyond the die-hard environmentalists targeted by the EV1 and first-generation hybrids like the Honda Insight and Toyota Prius. The new wave includes hybrid versions of familiar brands like the Honda Civic compact or Ford Escape small sport-utility vehicle (table). Carmakers hope to expand hybrids to minivans, traditional SUVs, and family sedans. Says Walter McManus, an auto analyst at J.D. Power & Associates: "The experiences people have in the first few years will be critical to whether hybrids reach a mass market."

The EV1 experience showed how easy it is to get it wrong. Here's how to get it right this time:

■ **Explain, explain, explain.** Auto makers must go way beyond their usual advertising schtick to explain the technology and allay fears about the reliability of new gadgetry. That starts with taking nothing for granted

about what consumers know. "The biggest misconception people have is that the vehicle has to be plugged in," says Christine Feucl, Ford Div. SUV marketing boss.

A few carmakers are talking the right talk. Toyota Motor Corp. will prepare for its Lexus RX hybrid SUV with an 18-month campaign that carefully lays out its technology. But with the category not yet established, other carmakers are about to create monumental confusion by slapping the tag "hybrid" on vehicles that boost mileage by barely 15%, compared with roughly 50% for true hybrids. That could disappoint buyers and create a bad vibe for the entire category. Warns

Mike Wells, Lexus' marketing manager: "Others

■ **Aim hybrids at those who can afford them.** Hybrids' sticker prices run several thousand dollars above traditional models'. Even with big savings at the gas pump and a federal tax break, it can take a decade to recoup the price premium. And most people will pay only \$600 to \$800 more for a hybrid, according to J.D. Power surveys.

Auto makers also need to move hybrids beyond entry-level cars more quickly. Honda Motor Co. cites price resistance as a reason that sales of



**HONDA
CIVIC**

Coming to A Dealer Near You

Combination gas/electric power systems are showing up in some popular car and truck models

HONDA CIVIC	March, 2002	The first mainstream hybrid, this compact sedan gets 48 mpg
FORD ESCAPE	Mid-2004	Crossover SUV will nearly double its mileage, to 35-40 mpg
LEXUS RX	Fall, 2004	V-8 performance from V-6 engine in a luxury SUV

Data: BusinessWeek, company reports



**LEXUS
RX 330**

may rush to market and make compromises that could have a devastating effect on this technology's success."

The industry must mount a solid educational effort so that consumers know just what they're buying. Enlisting independent parties like J.D. Power or the Sierra Club to set hybrid standards would help, too.

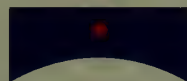
its \$20,000 Hybrid Civic still fall a few hundred vehicles short of its goal of 2,000 a month. "The Civic market is the one least able to afford the technology," admits Thomas G. Elliott, executive vice-president of American Honda Motor Co. By offering the hybrid option on upscale models, carmakers could pull in higher-end buyers who feel strongly enough about conservation to pay a little extra.

■ **For those who pay more, offer the visual cues that prove they're special.** Let's face it: A key appeal of high-end hybrids will be to give well-heeled buyers a clear conscience as they drive their hulking SUVs. So let those buyers broadcast their earth-friendliness. The discreet three-inch hybrid labels carmakers place above the rear bumper are way too easy to miss. By contrast, Lexus may give its hybrid a different grille, wheels, or taillights to set it apart from its internal combustion cousin. That's more like it. After all, where's the cachet in environmental chic if nobody notices?

Kerwin is Detroit bureau chief.

Is there something you don't know
about your *cost structure*?

Are there leaks in your cost structure? Do you know where those leaks are? If you're working with Business Objects, you'll know. Our business intelligence software gives you instant visibility on costs throughout your organization, and in all your customer and supplier relationships. So you'll have the intelligence you need to keep your costs under control. And your profits from trickling away. Business Objects is the world leader in business intelligence software, with over 15,000 customers. To find out what they know that you may not, visit www.businessobjects.com/finance. And download our free white paper "Business Intelligence – Now More Than Ever." Or call Business Objects at 1-800-527-0580 ext. 35.



BUSINESS OBJECTS®

Business Intelligence. If you have it, you know.™

Once upon a time,
there was a company in danger
of getting left behind. Customers
were demanding more service. Customization.
More value. So they bought a Time Machine. Flick a switch,
and they could go forward in time – and understand what their customers were
going to need before they actually needed it. With another button they could go
right back in time and undo integration snafus. They could catch up. They
were *jazzed*. Just one problem: the Time Machine was a flop. It didn't work.

AND THAT'S WHEN THEY CALLED IBM.

Highly customized, thoroughly personalized service is here. IBM can prepare you for
this *on demand* world right now. With deep expertise in 18 industries and resources
in 160 countries, the people of IBM Business Consulting Services can help you see
where this sense-and-respond world is headed. Head now to **ibm.com/ondemand**



IBM

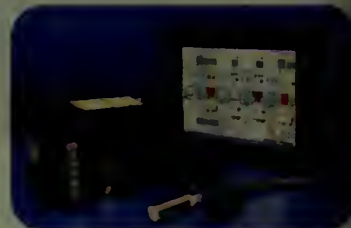
@ business on demand

A photograph of two men in a control room. The man on the left is wearing a dark suit and tie, and the man on the right is wearing a blue short-sleeved shirt with a name tag. They are both smiling and looking at a tablet held by the man in the suit. In the background, there are several computer monitors displaying various data and a person in a red hard hat.

Consider the possibilities

A powerful new level of industry automation support

Cutting-edge manufacturers are constantly challenging the next level of efficiency, reliability and flexibility. As a world leader in Sensing and Control Technology, Omron helps companies achieve these goals. And with operations around the globe, we're able to work closely with each customer to provide a solution for every specific need.



Products that improve manufacturing productivity and quality

A row of five solid blue circles of equal size.

OMRON

Sensing tomorrow

•Industrial Automation: Omron Electronics LLC 800-55-OMRON •Electronic Components: Omron Electronics LLC 800-55-OMRON •Healthcare: Omron Healthcare, Inc. 847-680-6200
•Automotive: Omron Automotive Electronics, Inc. 248-893-0200 •Social Systems: Omron Transaction Systems, Inc. 847-843-0515

Website: www.omron.com

BusinessWeek

Investor

EXPIRY 17, 2003

MAKING LIFE RICHER

Early Warning

How a Stock's Trading Volume
May Signal a Price Change

Page 88



ELECTRONICS 92

**A TV
Shopper's
Guide**

BARKER 95

**Healthy
Prognosis for
WellChoice**



UP UNTIL NOW, THIS WAS AS

CREATIVE
AS THINGS
EVER GOT

IN THE SUPPLY CHAIN
MANAGEMENT BUSINESS.



Let's face it, the term "creative" is seldom used to describe supply chain management companies. But if creativity means finding innovative solutions to familiar problems, that's the perfect way to describe Menlo Worldwide. By combining the most inventive minds in the business with leading technology, global reach and operational excellence, we're finding more intelligent ways for companies to source supplies, manage inventories, distribute products around the world. We call it perpetual innovation: continually creating new — and often unique — opportunities to generate value from our customers' supply chains. It results in things like better visibility, decreased cycle times and lower overall cost. Find out what a creative approach to supply chain management can do for your business. Visit menloworldwide.com.



MENLO
WORLDWIDE

dividends

tips,
tidbits &
more

EDITED BY
TODDI GÜTNER

THE STAT

\$48.3

LION. This is the gross domestic product of Guatemala in 2001—just slightly more than the \$45.5 billion fourth-quarter charge AOL Time Warner took to write down the value of the America Online unit.

World Fact Book, Bloomberg Financial Markets

SURANCE

THE BEST POLICY

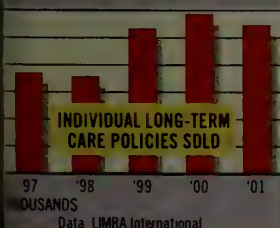
Get joint coverage for long-term care

Insurance that pays for nursing-home stays and health aides is expensive. But

if you buy a long-term-care policy with joint coverage, you can save money. To do so, choose a policy that:

permits both spouses to draw on the total benefit; sets a dollar limit for each individual, and offers a "pot" of benefits either can use or as a rider allowing the spouse or partner to tap unused benefits

TAKING CARE



GADGET

CLEANER, COOLER

Mothers have always known that a little humidity in the room can go a long way toward easing the sore throats and stuffiness that colds bring. But humidifiers are breeding grounds for bacteria. What sets **TrueAir's cool mist humidifiers** (\$30 to \$60) apart from the crowd is that they're **easy to clean and their water tanks are dishwasher-safe.**

MUTUAL FUNDS

Greener Money

THIS IS NOT EXACTLY A PROPITIOUS time to launch a mutual fund, but that's not stopping the Sierra Club. The group is the first national environmental body to put its name on funds: the **Sierra Club Stock Fund** and **Sierra Club Balanced Fund** (sierraclubfunds.com). Carl Pope, the San Francisco group's executive director, figures the investment guidelines are so strict that only a third of the companies in the Standard & Poor's 500-stock index will pass muster. Oil and lumber companies that could harm, among other things, endangered species, are taboo. The Sierra Club must approve all investments.

Forward Management, which oversees the no-load funds, also runs two top-rated real estate and small-cap funds. The 1.84% expense ratio for the Sierra funds is a bit more than the 1.74% average for social-investing funds. Does tree-hugging make for smart investing? Not necessarily. Socially conscious stock funds lost an average 1.73% annually over the past five years, according to Morningstar, vs. a 1.35% average annualized loss for companies in the S&P 500.

Susan Scherreik

TIME OFF

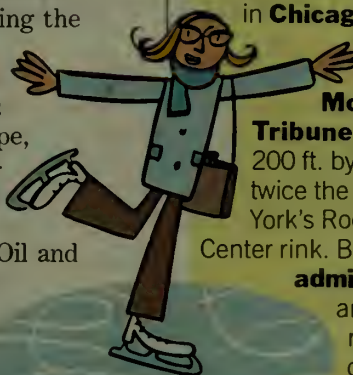
ICE BURG

Tie on those skates. If you're in **Chicago** this winter, visit the just-opened **McCormick-Tribune Ice Rink**. At 200 ft. by 80 ft., it's twice the size of New York's Rockefeller Center rink. Better yet,

admission is free,

and skate rentals are only \$3. The outdoor rink is in the heart of 25-

acre Millennium Park, a fast-developing recreation spot on fashionable Michigan Avenue. Log on to www.pbccchicago.com for more information.



YOU WATCH every wiggle of the Dow Jones industrial average. Ditto for every stock you own. That's all well and good. But if you really want to know what's going on, you have to watch not only the price of the shares but also how many of them change hands.

Price movements may give you bad signals unless you read them in tandem with trading volume. Typically, volume is heavy when stocks are surging and lighter during the final stages of their decline. "It's all psychology," says Phil Roth, chief technical market analyst at Miller Tabak, an institutional brokerage firm in New York. "At the top of the market, investors are ebullient, and at the bottom, they withdraw into a shell."

What's most telling is when trading volume departs from usual patterns. If volume wanes, say, as a hot stock hits a 52-week high, that could be a signal that the price trend isn't sustainable. "Changes in trading volume typically precede changes in prices," says Bernadette Murphy, chief technical analyst at Kimelman & Baird, a New York investment firm. "Volume acts as an early warning system."



Trading Volume

It's easy to watch—and deviations from recent patterns can often tell

In this first installment of Market Measures, an ongoing series on analytical tools to help you parse the stock market, we'll show how trading volume can help you identify investment opportunities and avoid traps.

LOOK TO THE WEB

With the Internet, monitoring trading volume is a cinch. Most sites that provide stock price quotes also list daily trading volume, as well as some historical data. One free Web site that offers detailed volume data—and is easy to navigate—is Clearstation (clearstation.etrade.com), a unit of online broker E*Trade. The New York Stock Exchange's Web site, nyse.com, also provides reams of historical volume data. Many professional in-

vestors monitor NYSE volume closely, seeing it as a proxy for the overall stock market.

When analyzing volume, it's useful to compare daily trading volume with trading volume over a longer period of time. One way to do that is to use a 30-day "moving average," which is calculated every day from the volumes of the most recent 30 days. You can also calculate a moving average for trading volume with other periods; many pros like to examine 150-day and 200-day moving averages to gauge longer-term volume trends.

Look at a price-and-volume chart for IBM (page 89). Like

most technology stocks, Big Blue has taken a beating during the bear market, sinking to a five-and-a-half year low of \$54.01 a share on Oct. 10. Since then, IBM has rebounded smartly, reaching a high of \$88.58 on Jan. 14 and closing at \$78.20 on Jan. 31. At first glance, the

past few months' price movement seems positive for the stock. But the trading volume tells a gloomier story. As the stock has risen, trading volume has largely remained below the 30-day moving average of 8 million shares.

What would set the stage for a stronger move? If IBM's upward march had been consistently accompanied by d-

This is the first in a series showing how various Market Measures can help you identify good opportunities and avoid traps

unts, Too

h way a stock is headed. **BY SUSAN SCHERREIK**

trading volume that was 50% to 100% above its 30-day moving average, Roth could have been convinced the stock was on the mend. The technical analyst w figures that at some point, IBM will retreat toward its October lows, dropping to around 55 to 60.

This analysis tells a happier story for Mylan Laboratories, where share volume is confirming bullish price moves. From August to December, the generic painkiller's share price held steady in a narrow range of \$19.74 to \$22.50, adjusted for a 3 for 2 stock split on Jan. 27. So this year, however, Mylan's shares have climbed higher on heavy volume, with trading activity on many days two to three times greater than the 30-day average volume. On Jan. 29, Mylan

shares reached a record price of \$26.76.

Mylan's rising volume indicates that buyers are willing to pay higher and higher prices for the stock. Kimelman & Baird's Murphy believes Mylan's share price could retreat somewhat in the weeks ahead as investors take profits. But heavy investor demand for the stock, as indicated by high trading volumes, makes her think its share price will eventually rise further, perhaps to \$35, over the next 6 to 12 months.

SPECULATIVE TRADING

Analysts also look to volume for clues to where the broad market is heading. For instance, Merrill Lynch Chief Market Analyst Richard McCabe isn't too worried about the recent downdrafts in the major market indexes. That's because the volume of NYSE exchange trading has been holding fairly steady at an average 1.4 billion shares daily over the past month. Heavier volume, however, could be a signal that investors were stampeding for the exits. "If the daily volume goes into the 2 billion to 2.5 billion range, I'll reassess the decline," he says.

McCabe also compares the daily volumes of the NYSE and NASDAQ to get a sense of the level of speculative activity. During the height of the bull market, volume on the tech-laden NASDAQ

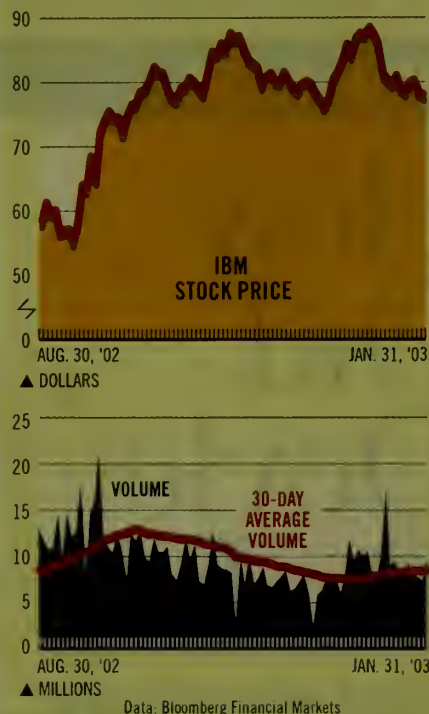
often was twice as heavy as volume on the more staid NYSE, McCabe says.

Today, the daily volume on both markets is roughly the same on average—1.4 billion on the NYSE in January and 1.5 billion on the NASDAQ. The last time the NYSE and NASDAQ had somewhat equivalent volume was October, 1998, during a pause in the bull market. If the stock market indexes start to rally, McCabe would be wary of a big spike in NASDAQ volume. "You don't want to see speculative activity build again too quickly," he says. That would mean investors were getting too bullish too fast.

NASDAQ provides daily and historic volume data on its Web site, nasdaqnews.com. To access this data, click

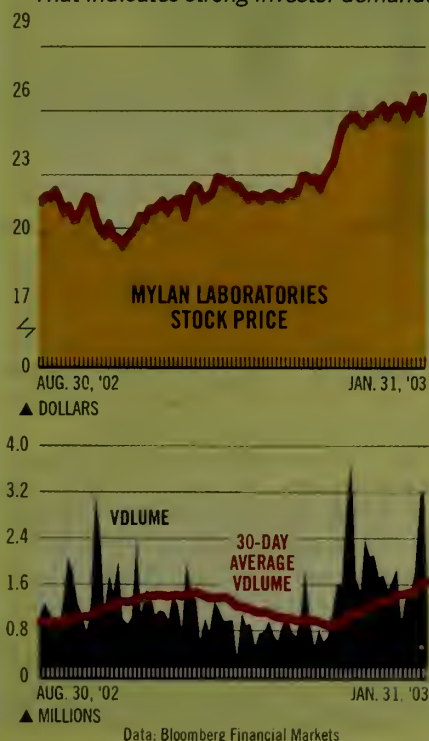
RIISING PRICE, FALLING VOLUME: A BEARISH SIGN

IBM has been climbing for months, but trading volume has fallen. So demand is waning, and gains may not last.



RIISING PRICE, RIISING VOLUME: A BULLISH SIGN

Mylan Laboratories' rapid climb has been accompanied by rising trading volume. That indicates strong investor demand.



on Indexes & Statistics, then Historical Statistics.

TURNOVER MATTERS

Many Wall Street pros look at NYSE exchange turnover—volume divided by shares outstanding. Turnover adjusts for the fact that an exchange's volumes

increase when new companies are listed and stocks split. The NYSE lists historical turnover data on its Web site. Annual turnover was 105% on the NYSE in 2002, vs. 94% in 2001 and 88% in 2000. At the end of bear markets, turnover typically declines, says Miller Tabak's Roth, adding that he has yet to see that hap-

pen. A potentially bullish sign, he says, would be if NYSE monthly turnover started to fall below 2002's 105%.

By tracking trading volume along with stock prices, you'll be able to gauge the intensity of investor sentiment. That intelligence will allow you to make smarter buy and sell decisions.

MUTUAL FUNDS

How Did Doyle Do It?

Kinetics Internet Fund is healthy and happy. Really.

BY MARA DER HOVANESIAN

PETER DOYLE, father of the first Internet mutual fund, has seen his fortunes come and go, and come again. In 1996, with \$12 million from friends and family, he launched the Internet Fund, "barely knowing what the Information Superhighway was," he recalls now. Two years later, it would be the hottest fund on the planet, up a dizzying 196% in 1998 and 216% more in 1999. By then, its assets had zoomed to \$1.5 billion.

Then, in June, 1999, portfolio manager Ryan Jacob—the public face of the fund—left to start his own firm. About eight months later, with no earnings to support them, dot-com stocks began their death spiral. By the end of 2000, Doyle's fund was off 50%.

Yet today, it looks pretty spiffy. Even after the tech boom went bust, the fund's annualized total return for the past five years is 26%. That ranks the

\$200 million fund, now known as Kinetics Internet Fund, at No. 3 among thousands, according to Standard & Poor's. Doyle's risk-adjusted returns earned him an "A" rating in *BusinessWeek's* recent Mutual Fund Scoreboard (Jan. 27).

How did he do it? The 40-year-old Doyle, who prefers a lunch of cold cereal at his desk to schmoozing in Manhattan's swanky restaurants, portrays himself as an old-fashioned value investor in high-tech-fund-manager's clothing. His hero is Benjamin Graham,

securities on its books. That means Doyle bought the underlying companies for 25¢ on the dollar, so he has a large margin of safety. By 1998, CMGI's market value reached nearly \$3 billion, lifting the value of Doyle's stake tenfold. In 1999, he sold it, along with shares of America Online, eBay, and theglobe.com, which together accounted for about 20% of the fund at the time and were still rising. CMGI's market value finished the year at \$29 billion. For Net fund managers had the discipline

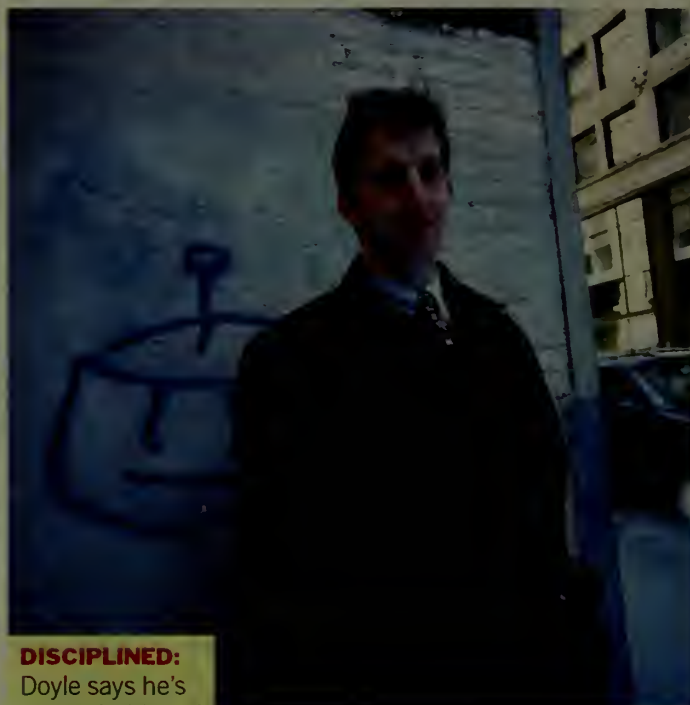
to sell while the stocks were soaring.

A more recent value play is tech consulting group Giga-Information. The share traded at 65¢ in October, 2002, which gave the company a market cap of \$7 million—even though it earned \$3 million the prior 12 months. Giga also had more than \$3 million in cash and no long-term debt. Doyle bought 100,000 shares at prices from 75¢ to \$1.50. Giga is now being acquired by First Research for \$4.75 a share.

It also helps that

Doyle is defining "Internet stock" loosely. He views Washington Post Co. as a Net stock because it owns the test prep company Kaplan, which offers Web education. Kroll, another holding, helps businesses protect their online networks.

Doyle doesn't see a margin of safety in big tech companies, so he's shorting Intel and Cisco Systems. "The end is not in sight for most tech stocks," he says, since prices are still too high and earnings prospects are too low. If he's right, he may be the last tech fund standing.



DISCIPLINED:

Doyle says he's an old-fashioned value investor. His tough calls prove it

the father of value investing, whose philosophy is finding stocks with a "margin of safety"—where the price paid for the stock is far less than the underlying value.

One of the fund's first investments, CMGI, once held stakes in about 30 emerging tech companies. No one thinks CMGI is a value stock today, but Doyle first purchased it in 1997. Then, the company had only a \$300 million market cap but \$1.2 billion in cash and

They both took care of
business.

Took care of their
families.

So why will one
leave his family with every
advantage,

while the other leaves
everything to chance?



The difference is an estate plan that will leave more of your assets where you want them to go. A Northwestern Mutual Financial Network Representative offers expert guidance in estate planning, as well as a network of specialists to help get you closer to all your financial goals.



Northwestern Mutual
FINANCIAL NETWORK®

Are you there yet?



NEW YORK SHOPPER
Buying a TV isn't a simple task any more

The Picture of Things to Come

As TVs go digital, here's what to look for in the showroom. **BY LARRY ARMSTRONG**

ONCE UPON A TIME, buying a television set was a simple matter. You went to the store and pretty much paid by the inch. If you picked the most popular screen size—20 inches a decade ago, or 27 inches five years ago—you got the best deal. Anything bigger was hundreds or thousands of dollars more.

No longer. Go to a store today, and there are still rows of conventional TVs—32-in. sets in the \$500-\$800 range are the most popular. But beside them are a manner of new configurations and technology: big, small, fat, thin. Their pictures are noticeably better, but the prices can be just this side of staggering.

Sets with wide, rectangular TV tubes instead of square ones range from \$1,700 to \$2,500. Tiny, flat, liquid-crystal ones range from \$1,700 to \$2,500. Tiny, flat, liquid-crystal ones range from \$1,700 to \$2,500. Tiny, flat, liquid-crystal ones range from \$1,700 to \$2,500.

TV MADNESS

Plasma Sleek plasma panels can go on walls but carry a high price.

50" Pioneer PDP-5030. \$11,000. 90 lbs., 3.9" deep.



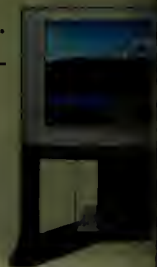
Square tube HD versions of analog sets are affordable

but can't display widescreen pictures very well. 27" Samsung TXM2796HF. \$700. 101 lbs., 20" deep.

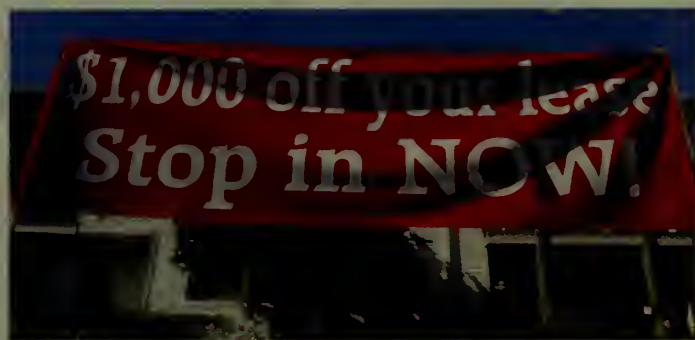


Wide tube Widescreen cost up to \$1,000 more than square ones, and can be bulky.

34" Sony KV-34XBR800. \$2,500. 206 lbs., 23" deep.



NOW, RENTERS HAVE ROOM TO MANEUVER



Jennifer Samples left Atlanta last fall, leaving behind a \$750-a-month, 700-square-foot, one-bedroom apartment built a century ago to house Coca-Cola workers. It was, she recalls, not charming 100 years old but "slumlord 100 years old." Now, she's back in town. And for her money (she's looking in the \$700-to-\$950 range), she has her pick of new apartments with wall-to-wall carpeting, swimming pools, and 900 to 1,200 square feet. What a difference four months—and an apartment glut—make.

After an economic boom that had landlords pitting prospective tenants against one other, **renters are now in charge.** In the right market, and especially for luxury units, a savvy renter can snare a home for 10% to 20% less than a year ago.

The reason: A slow economy, lots of apartments started in flusher times, and mortgage rates that encourage renters to buy have pushed up vacancy rates. Atlanta, at 10.5%, has one of the highest, says Reis, a real estate research firm based in New York. Austin, Tex. (11.6%) and Raleigh-Durham, N.C. (11.3%) also have darkened windows. Even cities in sunny Florida have rates approaching 9%.

Landlords are offering one, two, even three months' free rent. Some of the best deals can be had

ORLANDO OFFER

Rents are down even in Florida

in Silicon Valley and the San Francisco Bay area, where landlords

are so shaken by the dot-com bust that they're accepting 12.8% less in rent than a year ago in San Jose, and 10.3% less in San Francisco, according to Reis.

In shopping for the best rate, know what your money should buy. Go on the Internet or watch newspaper ads for specials. A real estate agent specializing in apartments can help you sift through the offerings. In places like Manhattan, where the renter has historically borne this cost, ask the landlord to pick up part or all of the fee. **For real savings, check areas where several new buildings are competing for tenants,** advises Michael Moran, a rental specialist with New York's Corcoran Group.

Since winter is slow, a landlord will be eager to fill any vacancy now. If you're willing to move in a week or two, a landlord might give you a bigger break. Signing a longer lease may win a discount. If the landlord won't come down on rent, perhaps he'll waive the application fee or throw in free parking. With smart shopping, maybe you'll be able to spring for champagne for that housewarming party.

Carol Marie Cropper

enter command \$800 and more. Those monster projection against the back wall for a couple of grand look like a pretty good deal. And that ultrathin plasma model hanging on the wall, Jetsons-like, how cool is that? Oh, about \$11,000 worth of cool.

This is all the result of television—like everything else in your home—going from analog to digital. You can make the tech now to future-proof your TV purchase. Or you can wait a few years, and the government will make the switch for you: By 2007, all TV stations must broadcast only digital signals. Don't worry, your old (or new) analog TV will not be obsolete anytime soon. Most people get their TV signals from cable companies, and future cable boxes will convert the analog signals to work with whatever TV you have.

If, however, you're a TiVo junkie, recording every episode of your favorite shows, you probably want to be ready when new programming arrives. Or, if a substantial part of your family's entertainment comes courtesy of Blockbuster, you'll really notice a dramatic improvement in the picture when you're watching DVDs. Some tips for buying a set:

Make sure it's high-definition (HD). That means it can handle up to double the number of horizontal lines compared to an analog TV, from 720 to 1,080 lines instead of today's 480. Attention: Many of the most affordable thin plasma screens, in the \$3,000 to \$5,000 range, are not high-definition sets and will reduce the quality of the HD signal to display it.

Buy a widescreen if you can afford it. Most future TV programming will be broadcast in the rectangular HD format reminiscent of a movie screen rather than the traditional, boxy shape of conventional TV. With widescreen TVs, you won't have those black bars at the top and bottom when you watch movies today—or TV shows tomorrow.

To save money, get an "HD-ready" set. Also called HD-compatible or HD-compatible, it can show an HD picture but doesn't include the electronics you need to decode the HDTV signal. That's O.K. You'll still get today's analog broadcasts, but if your cable or satellite TV company offers HDTV, you'll get a set-top box that will work just fine.

For the big picture, rear-projection TV is your best bet. Amazingly, widescreen HD projection sets measuring 40 inches and up—from \$1,400 to \$5,000—are cheaper than the analog ones were two years ago. Viewing angle is always an issue with projection sets, so, with your furniture arrangement in mind, be sure to look at them from what would be the worst possible vantage point.

Now that you're ready for the future, it's time to deal with today, when most TV programming is still the square-format, low-definition variety. The new sets are so good that they can reveal all the flaws of today's TV signal. When you're shopping, make the store turn off the HD picture and

turn on an analog one. There should be some kind of video-enhancement technology that can double the lines of an analog picture to take full advantage of the resolution of an HD screen. Then you're ready to commandeer the remote control, stretch back in the recliner, and watch the future of TV unfold. ■

ction
best
, inch
ch, and
st all are
high



tion and widescreen.
Mitsubishi WS-65311.
00. 320 lbs., 28" deep.

E-Filing: Where Should You Go?

Some sites are excellent and comprehensive. Others are mostly annoying. **BY ELLEN HOFFMAN**

NOTHING is as simple as it should be when it comes to the Internal Revenue Service. To encourage taxpayers to submit their 2002

returns electronically, the IRS has certified about 60 firms that can help you with e-filing—if you don't choose to use your local accountant. Links to the certified preparers appear at www.irs.gov.

The problem is the list isn't organized in any way, and your only clue to the service being offered is a promotional statement that accompanies the link. For example, Homeowners Tax Return Sale \$7.95 (homeowners.efile-tax-returns.org) connects to a site where you can prepare and transmit a basic return but no schedule C for a business, or schedule E for rental and royalty income. It's not clear why homeowners should use this service rather than another. Jackson-Hewitt, another certified firm, simply wants you to visit its offices for face-to-face help.

All the IRS certification means is that a vendor has proven it can transmit tax returns electronically, and that no red flags have popped up in FBI files or credit and tax records. The IRS cannot guar-



antee that the provider will help users produce accurate returns.

When searching for a preparer, look for a site that will guide you through the process with plain-English "interview" questions, error-checking systems, and access to nontechnical explanations. Beyond that, here are a few questions that will help you make a choice:

■ **Do you want to prepare your return online as well as file electronically?**

Online preparation means all your financial data are on the tax preparer's

server. If that makes you uneasy, better to use software that goes on your hard drive—and then transmit the finished return through the preparer's server.

■ **Can these services prepare and file state returns?**

Many don't at all, or offer the service only for a limited number of states. Some don't prepare returns for part-year residence in particular states.

■ **Which forms do you need to file?**

If you have complicated tax issues such as big capital gains or losses, adoption of a child, or rental income, make sure the system you choose supports all the forms.

■ **Do you want tax tips and advice as you prepare the return?**

For example, some systems might suggest that you contribute to an IRA if the information you submit shows that you're eligible to do so.

■ **How easy is it to navigate the site and understand instructions?**

Sites surveyed range from the annoying—Taxactionline interrupts you with pop-ups to sell you more expensive programs—to the helpful TurboTax and TaxCut, with their user-friendly functions.

■ **How much will this cost?**

Unless your income is low and you qualify for the "Free File" options, you may be able to do a return for as little as \$19.95. For a system that is easy to navigate and offers most forms you would ever need, expect to pay \$39.95. TaxProfilers.com charges \$50 to \$60 for the 1040 form alone, but if you have interest income, itemized deductions, and capital gains, the price can total \$90 to \$100. State returns are usually extra, from about \$9.95 to \$19.95.

Deducting Too Much?

If you're itemizing deductions, it helps to know what the averages are in your income range. If yours are much higher than these, they could raise red flags with the IRS.

Adjusted Gross Income	Medical Expenses	Property and State Income Taxes	Mortgage Interest	Charitable Contributions
\$50,000 to 75,000	\$5,565	\$4,324	\$7,406	\$2,123
\$75,000 to 100,000	7,364	5,896	8,578	2,604
\$100,000 to 200,000	11,226	9,239	11,310	3,733
\$200,000+	31,470	39,691	26,144	21,301

Data: CCH Inc. (for the year 2000)



IS WELLCHOICE A HEALTHY CHOICE?

BY ROBERT BARKER rb@businessweek.com

W HERE'S A STOCK FOR YOU. Just before Christmas, this company disclosed that its longtime CEO had been diagnosed with cancer. Two weeks later, his No. 2 abruptly quit. Those blows landed not even two months after the company's initial public offering. Oh, and I mention that there's a lawsuit asking the court to invalidate the IPO?

Such are the bare facts about WellChoice, one of the few companies to brave last year's sparse IPO market, the worst since 1979. It was able to do so because WellChoice's main operating unit, Empire BlueCross & BlueShield, enjoys a formidable market position as New York's largest medical insurer. The shares came to market at 25, rose, and soon plunged (chart). Lately, they idle under 23. Given the obvious threats to its future prosperity, you might wonder why the stock isn't considerably lower. I kept asking myself that.

Yet after taking a closer look at WellChoice, I figure that it offers more upside potential than downside risk.

WellChoice Chief Executive Michael Stocker, who is 60, says he plans in March to begin 2½ months of radiation treatment for cancer of the prostate. This may tire him, he says, but he notes that prostate cancer is relatively common in his age group—among 60-year-olds, according to the Centers for Disease Control and Prevention, it strikes 1 in 43. "It's very similar to [former New York Mayor Rudolph] Giuliani's situation when he was mayor," he said. "There's a very good chance that this will be a cure." Meantime, Stocker told me, he feels fine, is in no imminent danger, and aims to find a chief operating officer to replace David Snow Jr. Snow joined WellChoice in 1999, five years after leaving Stocker, who would not speculate on Snow's reasons for having quit so suddenly. Snow did not respond to inquiries.

The legal threat to WellChoice is more complicated and harder to assess. Like other Empire BlueCross-BlueShield plans around the country, those in New York started as nonprofits. But in recent years have been converting to for-profit, public companies—California's WellPoint Health Networks is a prime example—but often amid controversy over how they convert and how proceeds from the stock sales are used. WellChoice is no exception. A group led by Consumers Union sued last August to bar the conversion. In November, the courts declined to halt it, and the IPO went ahead a day later. But it did order New York State to freeze most proceeds



CEO STOCKER
Facing up to adversity

from the IPO, which Albany had planned to spend on pay increases for health-care workers. A ruling on whether to dismiss the suit or to keep the IPO proceeds frozen is still pending.

What should prospective investors make of all this? My bet is the lawsuit will wind up having been a big distraction. Even if the plaintiffs win, their main

argument at this point is with Albany, not Well-

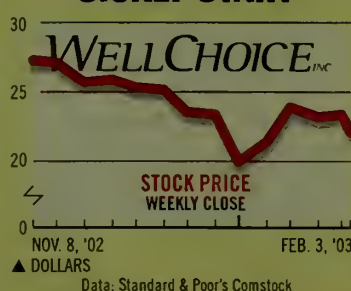
Choice. The plaintiffs' lawyer, Mark Scherzer, told me: "Our aim is to have the value of Empire BlueCross, which is a charitable asset in our view, transferred to a foundation" for public health, instead of being used to help cover the state's budget gap. If the courts agrees, that remedy might be made without unwinding the entire conversion and IPO—a drastic and, Scherzer said, less likely prospect.

While the litigation drags on, WellChoice is simply going about its business as a newly public company. And business is improving markedly. Last year through September, revenues rose more than 9%, to \$3.8 billion. At the same time, cash flow from operations swelled 16%, to \$206 million, after adjusting for extraordinary items, according to Chief Financial Officer John Remshard. Full-year results for 2002, which Wall Street estimates will show net earnings of \$1.83 a share, are due out on Feb. 13. For this year, the Street's

consensus is for a 20% gain, to net earnings of \$2.20 a share.

At that, WellChoice has been trading under 11 times 2003 earnings. That makes it look a bit beaten down next to WellPoint, which goes for almost 14 times earnings, and Anthem, a Blues operator based in Indianapolis, at 13 times. At both of those much larger peers, long-term debt is 31% of equity. WellChoice's most recent balance sheet showed no long-term debt. So while there's no escaping the aches and pains WellChoice is feeling now, it looks to me as if it has all the resources needed to make a full recovery.

AN INSURER'S SICKLY START





GROWTH IS STEAMING AHEAD AT ADVERTISING GIANT OMNICOM. OTHER UTILITIES' WOES HAVE ENTERGY GENERATING FAT PROFITS VODAFONE EMERGES UNSCATHED FROM TELECOM'S LONG SLUM

BY MARA DER HOVANESIAN

Onward at Omnicom

In January, when General Electric scratched its 23-year-old slogan, "We bring good things to life," it earmarked \$100 million for a new image and looked to Omnicom Group's BBDO Worldwide. As the No. 3 world ad shop, Omnicom (OMC) serves the blue chips, among them Gillette, Campbell Soup, and DaimlerChrysler. But lately, investors have been downbeat on Omnicom's prospects.

Last summer, in the face of accounting woes and the resignation of its audit committee chairman, the stock got chopped in half in just weeks. That prompted Moody's to review the debt, rattling investors. "Everyone assumed Moody's was taking it down to a D," says Jim Huguet of the Great Cos. America Fund, which then loaded up at 40 a share. Huguet's accountants found Omnicom in fine shape. He says the discounted value of its free cash flow is \$92 a share—where he thinks the now-57 stock should be trading. Moody's still has the bonds on "watch."

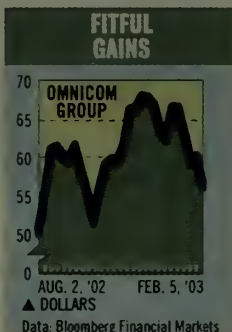
Meanwhile, Omnicom is gaining share, hauling in a steady stream of fees—rather than the usual ad-biz commissions. Mark Greenberg, manager of the \$1 billion Invesco Leisure Fund, pegs its free cash flow at \$4.25 a share and forecasts 2003 profits of \$3.80. That's up from First Call's consensus of \$3.71 for this year, and from last year's \$3.42. He sees the stock at 90 in a year. "Look, if the economy collapses, everybody gets hit," he says, of his No. 3 holding. "But I have a hard time thinking Omnicom's growth won't outpace the market." There's more: Berkshire Hathaway's Warren Buffett reported in November he recently added 500,000 shares via his Geiko insurance unit.

Entergy's Sudden Surge

Entergy (ETR) is the anti-Enron: The No. 2 provider of electricity from nuclear power is making profits. Analysts say its energy marketing and trading businesses are above board. While the Enron debacle brought down the industry, the problems there and at Williams funneled business Entergy's way. Its fourth-quarter profits, announced on Feb. 4, more than tripled, to \$77.4 million, or 34¢ a share, beating Thomson First Call's estimate of 26¢. Full-year earnings of \$3.81 beat

forecasts, too. The company, which also supplies natural gas, iterated its 2003 earnings forecast of \$3.75 to \$3.95, including decision to start expensing stock options.

Rate hikes, a strong credit rating, a good mix of businesses in unregulated nuclear power and gas pipelines, plus a record for smart acquisitions, put Entergy on UBS Warburg's buy list. "The company has a good strategy that has resulted in strong performance," says analyst Laura Blanco, who sees the price rising to 53 in a year, up from 45 now. "The trading business may have collapsed for others, but these guys are the survivors." Raymond Niles of Salomon Smith Barney, which has done work for Entergy in the past year, rates stock "outperform," vs. First Call's "hold" consensus.

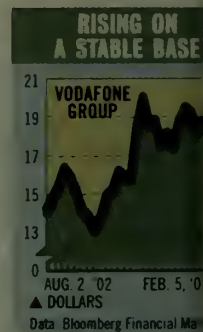
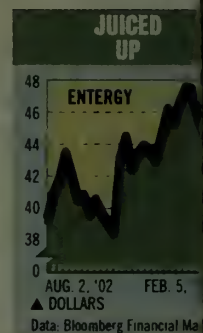


Vodafone: Can 112 Million Subscribers Be Wrong?

Is it time to dip into wireless? Followers of London Vodafone Group (VOD), tops in world telecom service with 112 million customers, say yes. For the six months ended Sept. 30, revenues rose 67%, and losses narrowed by 56%. (It would be profitable now if it were writing off goodwill from recent purchases.) "It has been stable as far as cash flow. People are going to see Vodafone is really cheap," says Raymond Mills of T. Rowe Price International Growth & Income Fund. Vodafone is among his holdings.

Unlike other telecoms that overbuilt and overacquired, Vodafone has a clean balance sheet. Its debt-to-equity ratio is less than 11%, and its bonds are rated A by Standard & Poor's. At 18.6, ex-highflier Vodafone trades at six times Mills's estimate of 2003 earnings before interest, taxes, depreciation, and amortization (EBITDA), vs. an industry average of 7.5. Mills says the stock, which dropped to 12.8 in September, could gain 20% in a year. Leila Ghachem of J.P. Morgan Chase, which calls Vodafone a client, rates "strong buy."

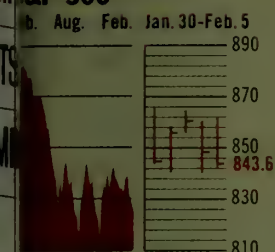
Gene Marcial is on vacation.



BusinessWeek online Read Gene Marcial's Inside Wall Street Online monthly column at www.businessweek.com/today.htm. And see him Fridays at 1:40 p.m. EST on CNN's *The Money Gang*.

STOCKS

S&P 500

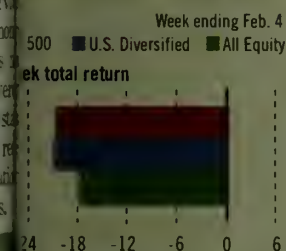
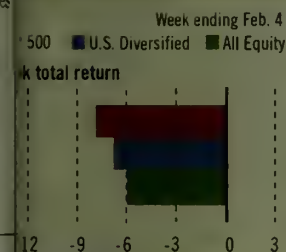


SENTARY

Markets reacted positively at Secretary of State Colin L. Powell's presentation of the case for Iraq to the U.N. Security Council. But support for stocks faded as investors began to fret about a possible effect on an already weak economy. For the week, the NASDAQ, S&P, and Dow fell 4.2%, 2.4%, and 1.5%, respectively.

Source: Bloomberg Financial Markets, Reuters

MUTUAL FUNDS



Data: Standard & Poor's

THE WEEK AHEAD

RETAIL SALES Thursday, Feb. 13, 8:30 a.m. EST ▶ January retail sales were most likely to have changed, while sales excluding vehicles are expected to have increased 0.4%. It's according to the median forecast of economists surveyed by MMS International. In December, retail sales jumped 1.2%, but surprisingly strong vehicle sales, while sales excluding autos were flat. Consumers continued to spend in 2002, with annual retail sales rising 3.4%.

IMPORT-EXPORT PRICES Thursday, Feb. 13, 9:15 a.m. EST ▶ Import prices in January

probably climbed 0.6%, following a 0.7% gain. Higher crude oil prices are the main culprit for the recent jumps. Export prices most likely slipped 0.1%, after a 0.2% decline from December.

BUSINESS INVENTORIES Friday, Feb. 14, 8:30 a.m. EST ▶ December inventories are expected to have risen by 0.2% for the second consecutive month.

INDUSTRIAL PRODUCTION Friday, Feb. 14, 9:15 a.m. EST ▶ Factory output in January probably rose 0.2%, reversing a 0.2%

decline in the previous month. The average operating rate most likely inched up to 75.5%, from 75.4% in December.

The *BusinessWeek* production index rose to 195.4 in the week ended Jan. 25, up 4.7% from the year before. More complete information is available at www.businessweek.com.

BusinessWeek online

For the BW 50, more investment data, and the components of the production index visit www.businessweek.com

U.S. MARKETS	FEB. 5	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
S&P 500	843.6	-2.4	-4.1	-22.6
Dow Jones Industrials	7985.2	-1.5	-4.3	-17.6
NASDAQ Composite	1301.5	-4.2	-2.5	-29.2
S&P MidCap 400	411.3	-1.4	-4.3	-16.5
S&P SmallCap 600	187.3	-1.6	-4.8	-17.6
Wilshire 5000	8010.0	-2.2	-4.0	-21.5

SECTORS

BusinessWeek 50*	518.8	-1.7	-4.4	-21.5
BusinessWeek Info Tech 100**	276.7	-2.6	-3.1	-27.5
S&P/BARRA Growth	432.0	-2.1	-3.7	-25.5
S&P/BARRA Value	408.8	-2.7	-4.5	-19.9
S&P Energy	179.7	1.1	-1.9	-11.6
S&P Financials	283.7	-3.3	-4.4	-14.4
S&P REIT	87.7	0.8	-3.4	-6.1
S&P Transportation	161.6	-0.2	-4.9	-22.6
S&P Utilities	92.7	-2.7	-5.1	-30.2
GSTI Internet	73.0	-4.8	-2.3	-17.4
PSE Technology	447.3	-3.8	-2.4	-31.9

*Mar. 19, 1999 = 1000 **Feb. 7, 2000 = 1000

BEST-PERFORMING GROUPS

LAST MONTH %	LAST 12 MONTHS %
Comptr. Stge. & Perphs. 9.8	Metal & Glass Containers 23.0
Computer Stores 8.1	Photographic Products 13.0
Distillers & Vintners 6.4	Internet Software 13.0
Office Electronics 5.6	Divsfd. Metals & Mining 11.7
Internet Retail 5.1	Casinos 8.7

EQUITY FUND CATEGORIES

4-WEEK TOTAL RETURN	%	52-WEEK TOTAL RETURN	%
LEADERS		LEADERS	
Precious Metals 5.5		Precious Metals 43.5	
Natural Resources 0.8		Real Estate 1.5	
Pacific/Asia ex-Japan -0.9		Natural Resources 0.9	
Japan -1.2		Japan -2.0	
LAGGARDS		LAGGARDS	
Technology -10.4		Technology -39.4	
Communications -9.9		Communications -29.1	
Latin America -8.9		Small-cap Growth -26.6	
Large-cap Value -7.3		Large-cap Growth -25.0	

EQUITY FUNDS

4-WEEK TOTAL RETURN	%	52-WEEK TOTAL RETURN	%
LEADERS		LEADERS	
Saratoga Hlth. & Biotech. A 163.4		First EagleGold 70.2	
ASAF Bernstein Mgd. 500 B 45.9		Saratoga Hlth. & Biotech. A 60.3	
ProFunds UltraShort OTC 18.8		Monterey DCM Gold 60.2	
Rydex Dynam. Vent. 100 18.6		Van Eck Intl. Invsr. Gold A 58.4	
LAGGARDS		LAGGARDS	
ProFunds UltraWrtss. Serv. -22.3		ProFunds UltraSemicdr. Inv. -72.9	
ProFunds UltraSemicdr. Inv. -20.7		ProFunds UltraOTC Inv. -65.2	
Rydex Dynam. Veloc. 100 -19.0		Rydex Dynam. Veloc. 100 -64.5	
ProFunds UltraOTC Inv. -18.7		Frontier Equity -61.7	

GLOBAL MARKETS

S&P Euro Plus (U.S. Dollar)	815.8	1.1	-3.4	-17.0
London (FT-SE 100)	3678.7	5.6	-6.6	-27.8
Paris (CAC 40)	2884.6	1.6	-5.9	-33.0
Frankfurt (DAX)	2725.9	0.7	-5.8	-44.8
Tokyo (NIKKEI 225)	8549.9	2.6	-0.3	-9.8
Hong Kong (Hang Seng)	9180.5	-0.7	-1.5	-13.5
Toronto (S&P/TSX Composite)	6521.0	-0.8	-1.4	-13.3
Mexico City (IPC)	5968.5	0.5	-2.6	-13.1

FUNDAMENTALS

	FEB. 4	WKL AGO	YR. AGO
S&P 500 Dividend Yield	1.88%	1.85%	1.43%
S&P 500 P/E Ratio (Trailing 12 mos.)	30.0	26.6	59.0
S&P 500 P/E Ratio (Next 12 mos.)*	15.3	15.7	20.5
First Call Earnings Surprise*	3.11%	3.35%	1.41%

*First Call Corp.

TECHNICAL INDICATORS

	FEB. 4	WKL AGO	READING
S&P 500 200-day average	931.0	937.7	Negative
Stocks above 200-day average	32.0%	28.0%	Positive
Options: Put/call ratio	0.86	0.77	Positive
Insiders: Vickers NYSE Sell/buy ratio	2.24	2.38	Neutral

WORST-PERFORMING GROUPS

LAST MONTH %	LAST 12 MONTHS %
Tires & Rubber -26.2	Tires & Rubber -66.4
Advertising -16.9	Multi-Utilities -63.2
Aluminum -16.6	IT Consulting -58.2
Semiconductor Equip. -16.6	Semiconductors -54.8
Photographic Products -16.5	Instrumentation -49.6

INTEREST RATES

KEY RATES

	FEB. 5	WEEK AGO	YEAR AGO
MONEY MARKET FUNDS	0.94%	0.96%	1.63%
90-DAY TREASURY BILLS	1.16	1.17	1.73
2-YEAR TREASURY NOTES	1.68	1.70	2.95
10-YEAR TREASURY NOTES	3.96	4.02	4.92
30-YEAR TREASURY BONDS	4.80	4.91	5.37
30-YEAR FIXED MORTGAGE †	5.92	5.97	6.81

†BancQuote, Inc.

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 30% federal tax rate.

	10-YR. BOND	30-YR. BOND
GENERAL OBLIGATIONS	3.90%	4.75%
TAXABLE EQUIVALENT	5.57	6.79
INSURED REVENUE BONDS	4.04	4.98
TAXABLE EQUIVALENT	5.77	7.11

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Abbey National 42
ABC (DIS) 73
Accenture (ACN) 12
AIG Capital Investment (AIG) 58
Alcatel (ALA) 66
Amazon.com (AMZN) 68
American Airlines (AMR) 42
American Honda Motor (HMC) 80
American International Group (AIG) 42
American Technology (ATCO) 64
AM General 58
Anthem (ATH) 95
AOL Time Warner (AOL) 40, 41, 87, 90
Ask Jeeves (ASKJ) 68
AstraZeneca (AZN) 74
AT&T (T) 15, 71
A.T. Kearney (EDS) 12
Atlantic Records (AOL) 40
Autobytel (ABTL) 68

B

Baltimore Ravens 12
Bank of America (BAC) 62
Barclays Capital (BCS) 58
Bath Iron Works (GD) 64
Berkshire Hathaway (BRK) 96
Best Buy (BBY) 36
Bethlehem Steel (BHMSQ) 36, 42
Biogen (BGEN) 42
Blockbuster (BBI) 92
Bloomingdale's (FD) 36
Blue Nile 68
Boeing (BA) 38
Bombardier 76
Boston Scientific (BSX) 10
Bristol-Myers Squibb (BMY) 8

C

Campbell Soup (CPB) 96
Carl's Jr. (CKR) 64

Carlyle Group 58
Carlyle High Yield Partners 58
Center Financial 62
ChevronTexaco (CVX) 76
CIBC World Markets (BCM) 58
Cincinnati Bengals 12
Cisco Systems (CSCO) 18, 36, 66, 90
Citadel Equity Fund 58
ClearStation 88
Clorox (CLX) 64
CMGI (CMGI) 90
Coca-Cola (KO) 16, 93
Comedy Central 40
Compaq Computer (HPQ) 15
Corcoran Group 93
Court TV 40

D

DaimlerChrysler (DCX) 42, 96
Delta Air Lines (DAL) 12
Deutsche Bank (DB) 15, 71
Deutsche Post 44
Digital River (DRIV) 68

E

eBay (EBAY) 41, 68, 90
Electronic Data Systems (EDS) 12
Elektra Records (AOL) 40
El Paso (EP) 42
Entergy (ETR) 96
Expedia (EXPE) 42
E*Trade (ET) 88

F

Federated Department Stores (FD) 36
FedEx (FDX) 74
First Albany (FACT) 41
First Wilshire Securities Management 62
Florida Power & Light (FPL) 64
Ford (F) 43, 80
Forrester Research (FORR) 90
Forward Management 87

F**kedcompany.com 68

G

General Atomics 76
General Dynamics (GD) 64
General Electric (GE) 42, 96
General Motors (GM) 36, 43, 80
Giga Information (GIGX.OB) 90
Gillette (G) 96
Goldman Sachs (GS) 36, 74
Great Cos. America Fund 96

H

H&R Block (HRB) 68
Hanmi Financial (HAFI) 62
Henkel 44, 50
Hewlett-Packard (HPQ) 15, 71
H. J. Heinz (HNZ) 12
Hoefer & Arnett 62
Honda (HMC) 80
Hotels.com (ROOM) 42

I

IBM (IBM) 66, 74, 88
INA-Schaeffler 44
Inktomi (INKT) 41
Institutional Shareholder Services 71
Intel (INTC) 90
International Steel Group 42
Invesco Leisure Fund (ILSAX) 96
Ipsos-Reid 28

J

JABRA 64
Jackson Hewitt 94
J.D. Power & Associates 80
John Hancock Funds (JHF) 58
Johnson & Johnson (JNJ) 10
J.P. Morgan Chase (JPM) 58, 74, 96

K

Kimelman & Baird 88

Kinetics Internet Fund (WWWFX) 90
Korean Exchange Bank 62
Korn/Ferry International (KFY) 43
Kroll (KROL) 90

L

Lazard 42, 44
Lever Brothers 64
Lewis & Roca 58
Loea 73
LookSmart.com 68
Lucent Technologies (LU) 15, 66, 71

M

Macy's (FD) 36
Madison Dearborn Partners 58
Major League Baseball 12
MarketWatch.com (MKTW) 68
McGraw-Hill (MHP) 97
McKinsey 44
Mercer Human Resource Consulting 25
Merrill Lynch (MER) 40, 71, 88
Microsoft (MSFT) 41, 42
Miller Brewing 8
Miller Tabak 88
Moody's Investors Service (MCO) 8, 96
Morgan Stanley (MWD) 68
Morningstar 87
Mylan Laboratories (MYL) 88

N

Nara Bancorp (NARA) 62
Ness Motley 56
Nestlé (NSRGY) 10
New Line Cinema (AOL) 40
News Corp. (NWS) 64
Nortel Networks (NT) 66
Northrop Grumman (NOC) 76

O

Ogilvy & Mather 8

Omnicom Group (OMC) 96
Overstock.com (OSTK) 68
Ox Information 8

P

Pacific Union Bank (PUBB) 62
Pfizer (PFE) 74
Procter & Gamble (PG) 16
Proxim (PROX) 18
Putnam Investment Management 58

R

Raymond James & Associates 10
ReefEdge 18
Reis 93
Renco Group 58
Richardson Patrick Westbrook & Brickman 56
Right Management Consultants 74

S

Salomon Smith Barney (C) 96
San Diego Chargers 12
Sanford C. Bernstein (AC) 66
SAP (SAP) 44
Sapient (SAPE) 44
SBC Communications (SBC) 41, 66
Schering 44
Schwab Capital Markets (SCH) 36
Sheshunoff Information Services 62
Shutterfly 68
Sierraclubfunds.com 87
SKET Machine & Facility Construction 44
Sony (SNE) 44, 64
SpaceDev (SPDV) 38
SpaceVest 38
Spherion (SFN) 74
Standard & Poor's (MHP) 8, 58, 87, 90, 97
Staples (SPLS) 68

T

Taxactonline 94
TaxCut 94
Theglobe.com (TGLO.OB) 90
Thomson First Call 9
3Com (COMS) 18
Time (AOL) 40
TiVo (TIVO) 92
Toyota (TM) 44, 80
TrueAir 87
T. Rowe Price International Growth & Income Fund (TRIGX) 96
T. Rowe Price Telecor Equipment Fund 66
Turbo Tax 94

U

UBS Warburg (UBS)
United Airlines (UAL) 42
USA Interactive (USA) 42, 68
US Airways (UAWGQ) 42
U.S. Bancorp Piper Jaffray (USB) 68

V

Vodafone (VOD) 96
Volkswagen (VLKAY)

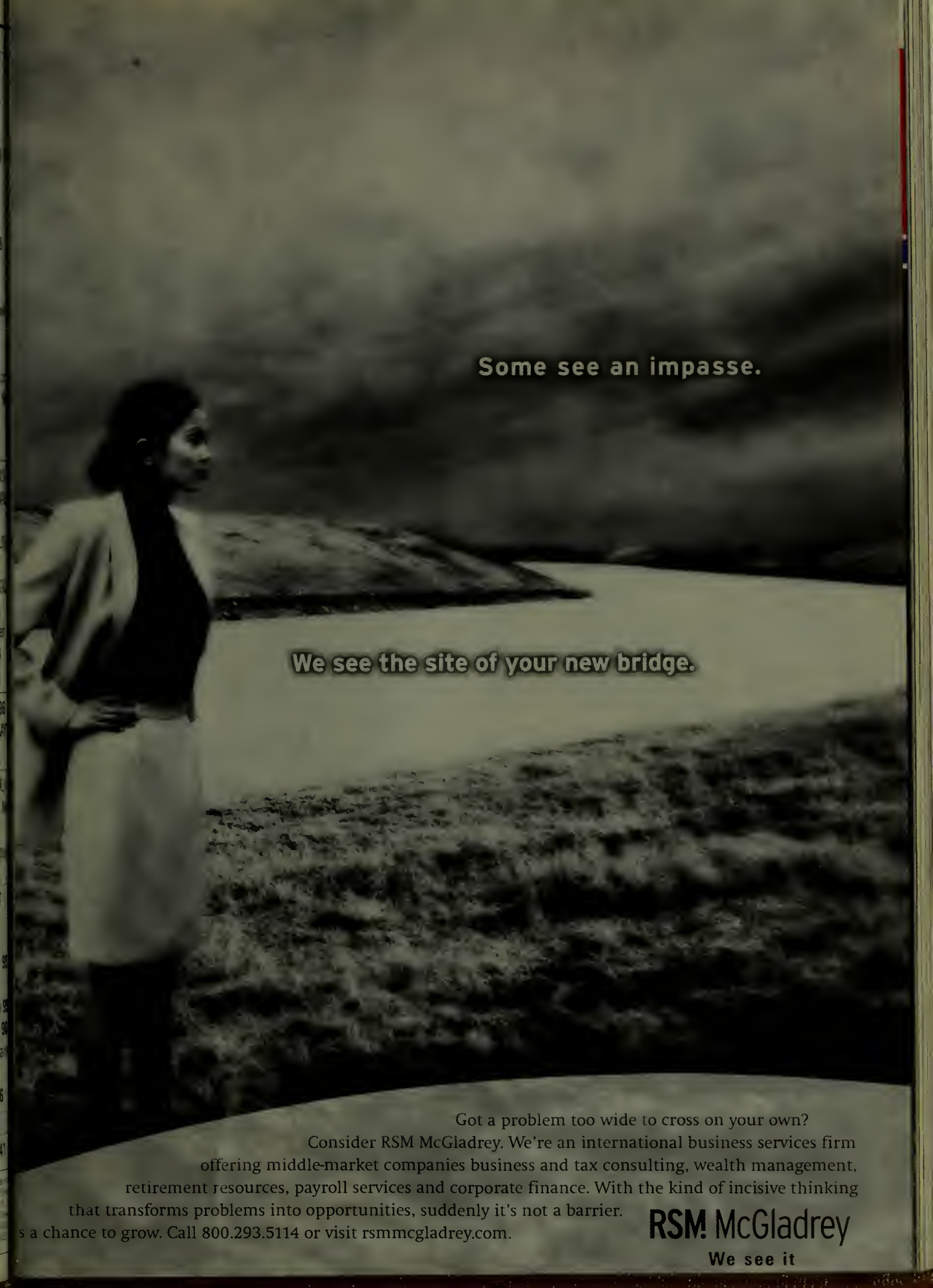
W

Warner Bros. (AOL) 4
Warner/Chappell Music (AOL) 40
Warner Music Group (AOL) 40
Washington Post (WPO) 90
WCI Steel 58
WellChoice (WC) 95
WellPoint Health Networks (WLP) 95
Williams (WMB) 96
Wilshire State Bank (WSBK) 62
W.W. Grainger 36

Y

Yahoo! (YHOO) 41

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and one August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$59.97/year; Canada: CDN \$94.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Canada Post Publication Mail Agreement Number 40012. Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO. 80322-3.



Some see an impasse.

We see the site of your new bridge.

Got a problem too wide to cross on your own?

Consider RSM McGladrey. We're an international business services firm offering middle-market companies business and tax consulting, wealth management, retirement resources, payroll services and corporate finance. With the kind of incisive thinking that transforms problems into opportunities, suddenly it's not a barrier.

There's a chance to grow. Call 800.293.5114 or visit rsmmcgladrey.com.

RSM McGladrey

We see it

BUSH'S MAKE-OR-BREAK GROWTH AGENDA

Realistic or reckless? President George W. Bush is throwing the dice in a flurry of audacious economic plans that promise to greatly stimulate American growth—or bust the budget and the economy with it. Even as he readies for war with Iraq, the President wants to create new tax-exempt savings accounts, expand retirement accounts, cut taxes on stock dividends, move up income tax cuts, end all inheritance taxes, offer a big Medicare drug benefit, and boost defense spending sharply. He is betting big that promoting capital formation will send the stock market higher and generate faster economic growth to pay for skyrocketing budget deficits. Yet his proposals will drain away potential tax revenues that may be needed in a future sure to see millions of baby boomers retire, Medicare and Social Security pressed for money, and expensive defense against terrorists. And while we admire the President's chutzpah, it will no doubt be hard to manage so many economic initiatives at a time when America will be fighting a war, possibly occupying Iraq, and defending the homeland (page 28).

Bush, in effect, is proposing nothing less than a radical reshaping of the tax system. Combine his proposal to end taxes on stock dividends with his idea of creating three new, tax-free savings and retirement plans that allow families to sock away substantial income annually and you get a huge tax incentive for Americans to save and invest more—and consume less. It is a bold experiment. If it works, it would invigorate the economy. But people may simply shift their existing savings from taxable to nontaxable accounts. Fewer employers may offer retirement plans. And the public may view it as a sop to the rich.

Managing all these initiatives, moreover, is problematic.

Even as he tries to change savings and retirement, Bush is planning to shift more responsibility for Medicaid to the states, push vouchers for education, and nudge domestic and worldwide opinion toward the need for a radically new post-September 11 U.S. foreign policy of preemption to replace the Cold War policy of containment. Iraq is the just the first instance of this. North Korea may be the second. But Bush has stumbled in making his case, and the cost has been significant. Anti-Americanism is rife around the world. So, too, the Administration fumbled the ball on selling the dividend cut to the public.

But Bush's greatest risk is the skyrocketing federal budget deficit. He's betting that higher growth will pay down the growing debt and keep interest rates low. It's a real gamble. By their own numbers, the initiatives the President is proposing will produce \$1 trillion in combined deficits through 2005. The budget doesn't include Iraqi war costs or the price of occupation, which could total hundreds of billions of dollars.

If Bush's savings and tax initiatives invigorate investment and productivity growth stays in the 2% to 2½% range, if the economy goes well, if there is no terrorism at home, if the economy grows at 3% to 3½% per year for the whole decade—if that happens, Bush could win his growth bet. But that's a lot of "ifs." We certainly favor policies that stimulate saving, investment, and growth. But the magnitude of the President's bet is so large in so many ways that it may drain away revenues needed just when the boomers retire and security costs are soaring. The danger is that the risks outweigh the benefits. What is needed is a smaller, more focused package.

GERMANY: THE ROAD BACK

Countries can have bad decades and then climb out of them. The U.S. experienced a nasty bout of stagflation in the 1970s before thriving in the '80s and taking off in the '90s. But sometimes, nations get stuck and slowly fade in economic vitality and international stature. Japan, of course, is the best example. Germany, it now appears, is another (page 44). Sometime in the past decade, as its population aged, the nation went from creating wealth to defending it. People became risk-averse, inward-looking, and isolationist. The implications are profound. Germany is sacrificing its young to 11% unemployment and life on the dole. It is putting great strains on the euro, the European Central Bank, and the European Union. It is fracturing the Atlantic Alliance, with Chancellor Gerhard Schröder blatantly exploiting serious differences of opinion with the U.S. on Iraq for political gain while doing little to stop his country's military from shrinking into impotence. How sad.

There's still time to reverse Germany's decline, but not much. The disastrous showing by Schröder in local elections

shows that many Germans are deeply unhappy with the current state of affairs and want change. In reaction, Schröder is now promising to attack Germany's problems—its inflexible labor laws, excessive taxes and regulations, and overgenerous social benefits. After a decade of inaction, false starts, and broken promises, it's hard not to be skeptical.

A bold move that radiates across Germany is required. One idea is to sharply cut all subsidies and tax breaks to foster Old Economy industries, such as shipping and coal. That would free tens of billions of euros for across-the-board cuts for individuals and corporations. Consumption would rise, and businesses would have profits to invest. In return, both labor and capital must give something up. The unions must let go of the *Kündigungsschutz*, or job protection law that makes firing so costly that companies don't hire. Corporations must fight for reform, instead of just investing abroad to avoid Germany's harsh business climate.

Such measures would have enormous symbolic value, sending powerful signals that Germany can reverse its slide.



BusinessWeek

Y 24, 2003

www.businessweek.com

PED

T

ROKER
EDWARDS
ON
REES?



PEDIA

T FLY
AFTER ITS
BAILS?

UTH

REA

DE A NEW
ERATION'S

RICANISM

GETTING SMART ABOUT

OIL

Let's face it: America cannot
live without imported oil.
But we can significantly
reduce our addiction.
Here's what to do.
And what not to do.

PAGE 96



#BXBBGDD ***CR LOT 000000000

#LBRLP000097 1#302497

BURLINGAME

FEB 18 2003

BURLINGAME PUBLIC LI
480 PRIMROSE RD
BURLINGAME CA 94010

Transformation.

It's a big word.

Going into the DNA
of the business.

Pulling best practices
from other industries.

Pulling together decades
of category experience,
street-smart big thinkers and
the newest technology.

Done well, it can turn old
processes into new profits.

But who could do all that?

Everything at once?

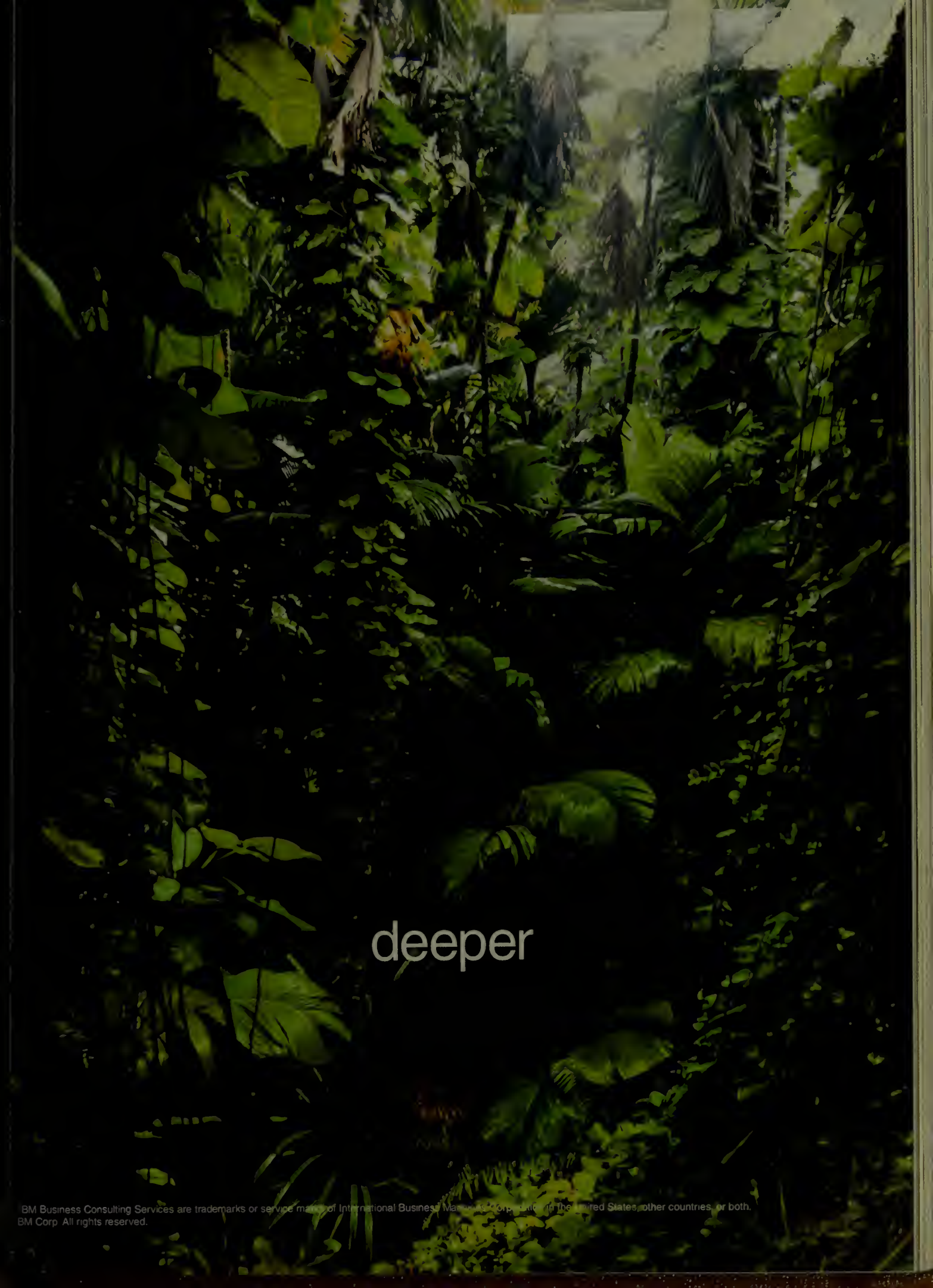
Who would have the depth?

Introducing **IBM Business Consulting Service**

Industry insight. Strategy. Process. Deployment. Start-to-finish accountability. Delivered on-site, outsourced or on-demand.



ibm.com/bcs



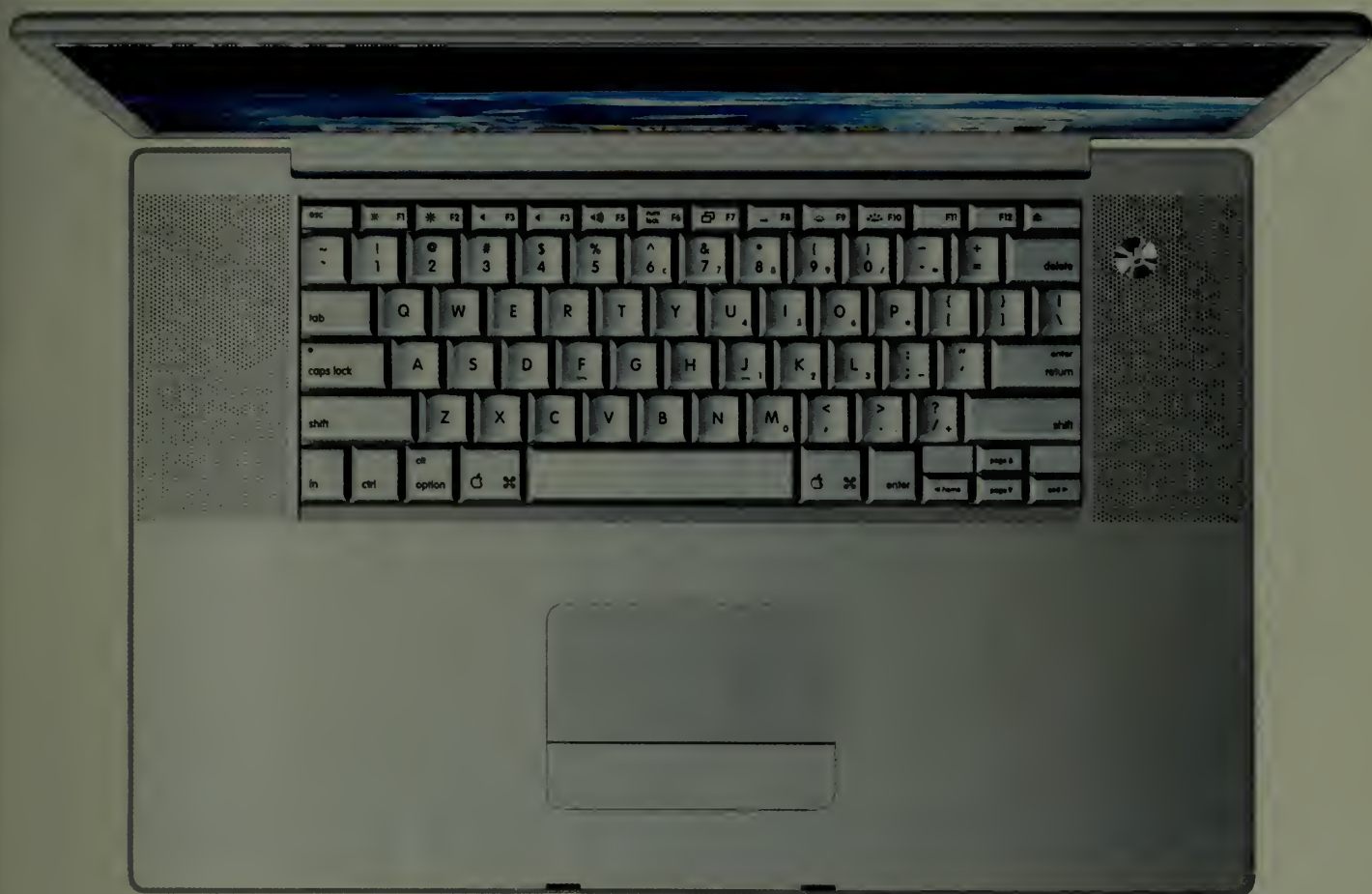
deeper



Less is more.

Presenting the world's most compact full-featured notebook computer. Unlike other compact notebooks, everything is built in. Like a blazing G4 processor, super-crisp 12" display (1024 x 768), slot-load CD-burning/DVD-playing Combo drive and integrated Bluetooth. Plus a battery that lasts up to 5 hours, so you can do more—anywhere. All incredibly engineered into a stunning aluminum enclosure that's just 1.2" thin. The new 12" PowerBook.*





More is more.

Presenting the world's first 17" notebook computer. Featuring a breathtaking 17" widescreen display, blazing 1GHz G4 processor, slot-load CD/DVD-burning SuperDrive™ and the industry's first backlit keyboard. Plus AirPort® Extreme* (802.11g) and integrated Bluetooth make it the most wirelessly connected notebook ever. All miraculously engineered into a 1"-thin enclosure that's ultra-light and ultra-desirable. The new 17" PowerBook.



In the world's harshest environments, fundamental strength withstands the test of time. The XL Capital group was created by com customers, and our fundamental strength is trusted by the world's leading companies to help them endure the harshest expo



The strength to cover the world's largest business and financial risks.

Specializing in large risks and financial solutions for business, we are strong partners.
INSURANCE | REINSURANCE | FINANCIAL Experience our strength. www.xlcapital.com
The XL Capital group is rated A+ by AM Best.

XL CAPITAL

FUNDAMENTAL STRENGTH – CAPITAL AND PEOPLE





AN 1859 UPRIGHT BASS BY JOHANN FERDINAND LU
DOESN'T COME TO YOU. YOU MUST GO TO THE BASS
USING OUR NAVIGATION SYSTEM AND FOLLOWING A RUMOR
WE HEARD IN A JAZZ CLUB, WE WENT UP AND DOWN THE HILL
OF SAN FRANCISCO IN SEARCH OF A LITTLE MUSIC SHOP
IN THE MIGHT.

THE NEW NISSAN MURANO. Introducing a distinctive SUV with all-wheel drive, 245 horsepower and the smooth

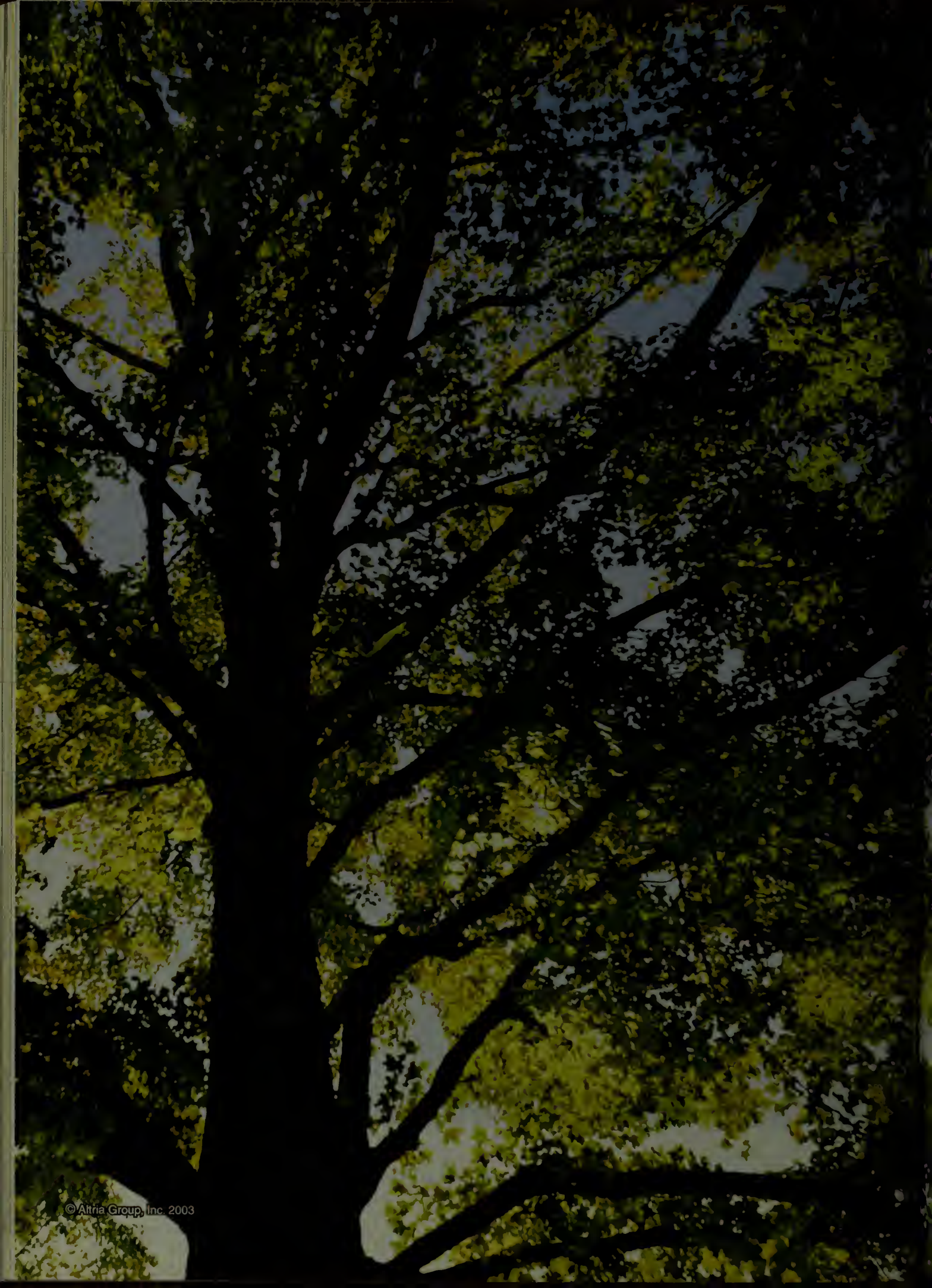
ADVENTURES IN ON-ROADING

1859 TYROLIAN UPRIGHT BASS
37° NORTH 122° WEST

VT. And styling that embraces both highway and lonely road. It's the perfect vehicle for all your on-road adventures



SHIFT_passion



What is Altria?

Altria Group, Inc. is a parent company whose roots are firmly planted in success, through years of strong financial performance and global reach.

A parent company whose branches are blue chip operating companies: Kraft Foods, Philip Morris International and Philip Morris USA.

From these branches grow many brands each worth a billion dollars or more, like Marlboro, Nabisco and Oscar Mayer. Along with hundreds of other household names such as Altoids, Parliament, Post and Ritz. Altria Group, Inc. is the parent company of a family of operating companies, that makes the world's best-known brands.



Altria

Kraft Foods
Philip Morris International
Philip Morris USA
altria.com NYSE: MO

COVER STORY

GETTING SMART ABOUT OIL

A sensible, step-by-step energy policy is within reach. Here's what to do *page 96*



STILL SOARING

Why online

travel agent Expedia scares the rest of the industry *page 120*



BusinessWeek

FEBRUARY 24, 2003

Cover Story

96 GETTING SMART ABOUT OIL

There's no way around it: America's thirst for oil makes us vulnerable to any event in the world that affects supply, from the strike in Venezuela to an Iraq war to production problems in Russia. Clearly, it's urgent that we reduce our dependence on foreign oil and become a more energy-efficient nation—but we must do it without putting the economy at risk. How? By building on past knowledge and achievements and by ditching misconceptions about energy that hold us back. Here are our guidelines for a sensible—and achievable—U.S. energy policy

News: Analysis & Commentary

34 THE BUSH TAX PLAN: UNDER FIRE

With even Republican congressional leaders attacking the President's proposals, they're likely to see plenty of changes

36 A TALK WITH JOHN SNOW

The Treasury Secretary explains how he'll push an ambitious economic plan

37 COMMENTARY: ALAN GREENSPAN

Why Bush's proposal, along with Washington's bookkeeping, has the Federal chairman worried

38 THE INVESTORS' DREAM ACT

Bush's tax proposal could reshape how you save

40 COMMENTARY: SPRINT

A clubby, passive board shares the blame for the company's problems

41 BURNED BY TAX SHELTERS

Shareholders—and the IRS—are furious at executives

42 DIRECTV: ONE HOT DISH

Suddenly, it looks like a bidding war is in the offing

42 TARGET IS MISSING THE MARK

Being an upscale Wal-Mart is no longer enough

44 THE BUZZ IN TOYLAND

Cheap chips yield junior versions of high-tech gizmos

46 IN BUSINESS THIS WEEK

International Business

50 KOREA: POLITICS

A new generation helped elect Roh Moo Hyun. Now, they're rising to power—and what they want most is change

52 A TALK WITH ROH MOO HYUN

He discusses the crisis with North and corporate reform

56 PUMPING UP BP

Its dramatic deal with Russia's Tyumen Oil has significance beyond the oil patch

57 INTERNATIONAL OUTLOOK

Bush, Blair & Co. have plenty of good reasons not to go it alone in Iraq

Economic Analysis

28 ECONOMIC VIEWPOINT

Barro: There's a lot to like about Bush's tax-reform plan

30 ECONOMIC TRENDS

Rich and poor spending levels; inflation vs. joblessness; the value of dividends

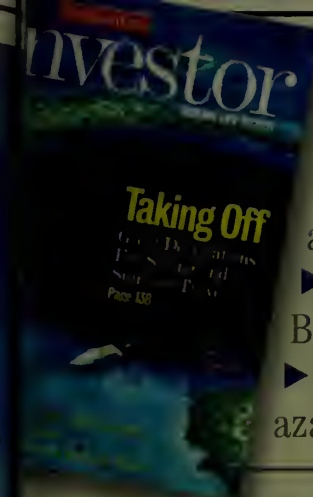
31 BUSINESS OUTLOOK

U.S.: The recovery needs low inflation; Britain: Insurance against global crisis

Government

49 WASHINGTON OUTLOOK

This time, Silicon Valley may win its war against expensing stock options



- Iceland is for nature lovers page 136
- Royal treatment at Rajasthan page 137
- Jungle jaunts in Belize page 138
- Dixie's amazing azaleas page 140

TOWERING IDEA

Architect Daniel Libeskind page 110



FROM ALL SIDES
How much of Bush's economic plan will survive? page 34



WH POWER
New generation
ing up South
page 50



SO-SO PROFITS

Last year was weaker than the numbers show page 58



BURNED

How an A.G. Edwards broker ruined retirement for former P&G workers page 114

Rate Scoreboard

ARNINGS: JUST A BIT BETTER
st year's modest rise over a
astrophic 2001—which at first
nce looks stronger than it is—
y well be repeated this year
E DEAD WEIGHT OF DEBT
o much of today's profits are
ing toward servicing '90s debt

VISION FOR NEW YORK
aniel Libeskind's design for
ound Zero evokes both tragedy
d the city's resilience

CEPED OUT
ow P&G workers invested their
st eggs, made rich from company
ck, with an A.G. Edwards
oker—only to get terribly burned
er they retired early

Information Technology

OLDSTROM: TECHNOLOGY & YOU
law to thwart digital piracy is
ing used to stifle competition

120 EXPEDIA: NEW PILOT, SAME PLAN
The online travel site is set to soar, despite the recent departure of CEO Richard Barton

124 GOING AFTER MICROSOFT
Will a new case filed in Europe hamper the behemoth?

The Workplace

127 UNIONS TAKE AIM AT CEO PAY
There will be plenty of proxy fights at this year's annual meetings

Legal Affairs

130 THE FALL OF A LEGAL TITAN
How the blue-chip law firm of Brobeck, Phleger & Harrison got caught in the tech wreck

BusinessWeek Investor

135 DIVIDENDS
Grilled cheese sandwiches; a golf ball that lights up; market omens

136 FIRE AND ICE IN ICELAND
From volcanos to glaciers, this is an eco-tourist's paradise

- 137 INDIA: REVISITING THE RAJ**
In Rajasthan, a commoner's budget gets you the maharajah treatment
- 138 BELIZE: AN ECOTOURIST'S EDEN**
It has much to offer nature lovers—from reef diving to jungle treks
- 139 AIRPLANE SURVIVAL KIT**
Items to make your flight comfy
- 140 CHASING RAINBOWS IN DIXIE**
The South's azalea season has a riot of color—and plenty of good tours
- 141 BUENOS AIRES FOR A SONG**
Now, the grand city is cheap again
- 142 THE BARKER PORTFOLIO**
Converse is cool, but its IPO might burn you
- 144 MARCIAL: INSIDE WALL STREET**

Features

- 14 UP FRONT**
- 18 READERS REPORT**
- 22 BOOKS**
Weightman: *The Frozen-Water Trade*
- 146 FIGURES OF THE WEEK**
- 148 INDEX TO COMPANIES**
- 150 EDITORIALS**

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

Updated every business day at www.businessweek.com



Visit the BusinessWeek 50 area of our site for news, investing tools, and more at

www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ ANOTHER JAPAN?

Germany may be following a similar pattern of economic decline, says BW's Bob Dowling



■ WATCH THE VOLUME:

BW's Susan Scherreik on how trading volume can be a key to future stock-price movement



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

FREE NEWSLETTER

KEEP UP with the latest on our Web site with BusinessWeek Online's **free newsletters**. Sign up at www.businessweek.com/newsletters.htm

Find quick links to everything on this page at the Feb. 24, 2003, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/03_08/online.htm

All-Distance Telecom

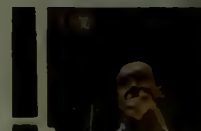
Special Report: This will be the year that long-distance and local calling get reunited in one business. The resulting upheaval—including monster mergers—is sure to turn the industry upside down



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

Street Wise: The states are bleeding red ink, as are city halls—and with the federal deficit ruling out help from Washington, investors have another worry



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Q&A: S&P's Thomas Graves lists 15 shares with S&P's top recommendation in the consumer sector

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

Smart Answers: Finding free lists of new businesses can be difficult. Paying for them may be the best bet



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Tech Knowledge: S&P has found one way to play the eventual telecom-equipment business recovery: Comverse Technology



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

Q&A: Dawna Clarke, admissions director at the University of Virginia's B-school, has advice on what her team looks for in applications

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

Online Asia: Software piracy remains endemic, but an industry lobbyist sees signs that China's self-interest is prompting a new attitude

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Pay & Perks: IBM has one of the country's most complete policies for employees who are military reservists. Here's how it works



**M
IDEA**

**I AM
YOUR IDEA**

**I AM
YOUR IDEA**

**NOW DO I
HAVE YOUR
ATTENTION?**

It's not how many ideas you have. It's how many you make happen. So whether it's your idea or Accenture's, we'll help you turn innovation into results. See how at accenture.com

**>
accenture**

Innovation delivered.

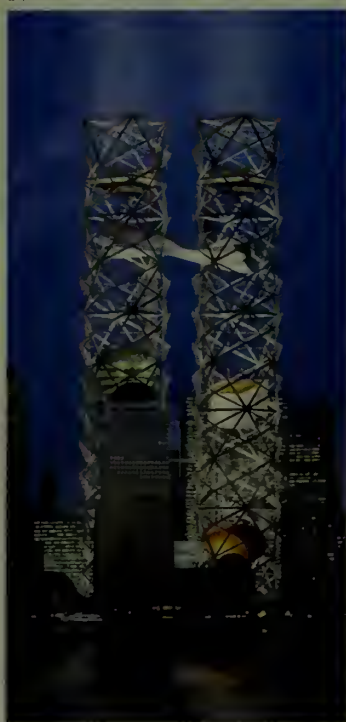
Consulting • Technology • Outsourcing • Alliances

Up Front

EDITED BY SHERIDAN PRASSO

AFTER 9/11

GETTING IN ON THE GROUND FLOOR



NEW WTC: One contender

IT'S DOWN TO THE WIRE FOR the two finalists vying to redevelop the World Trade Center (page 110). A winner will be declared by the end of February. But is Lower Manhattan ready for all that new office space? The market is

already weak, and leases on 44 million square feet there will expire over the next four years, according to the Lower Manhattan Development Corp. So no matter how cool the new project is, if you build it, will they lease?

Yes, according to a survey of 85 major companies, prepared for *BusinessWeek* by CoreNet Global, an association of corporate real estate professionals. (A fifth of the companies were located downtown pre-September 11.) Only 10% of those surveyed would balk at moving in because of perceived risk or stigma. By contrast, 69% said they would rent if costs were on par with other New York office space. And 6% said they would even pay more to be in such a new, prestigious location.

Their biggest worries? Skittish employees: 51% are unsure how their people would feel working there. And lack of adequate transportation: 55% said improving transit would have "some" effect on a decision to lease there, while 28% said the effect would be "dramatic."

Rebuilding it will take years. But someday, the site may again teem with tenants. *Robert McNair*

THE BIG PICTURE

WORKING SMARTER OR WORKING HARDER?

Despite layoffs and wage freezes, U.S. CEOs think they can squeeze more out of their staffs and equipment this year. Here, the share of CEOs predicting a productivity rise in:



Data: Proudfoot Consulting

TELEPHONE SURVEY OF 2,400 COMPANIES WITH AT LEAST 1,000 EMPLOYEES, RELEASED JANUARY, 2003

TALK SHOW "I am one of the few people who is still not yet convinced that stimulus is a desirable policy."

—Alan Greenspan, speaking to the Senate Committee on Banking, Housing & Urban Affairs

GUCCI GULCH

DID THE GOP LOBBY THE LOBBYISTS?

WITH MUTUAL FUNDS IN Congress' crosshairs, the top lobbying job at the industry's trade group is now a partisan target. Aides to House Financial Services Committee Chairman Michael Oxley (R-Ohio) have told the Investment Company Institute (ICI) that it spends too much time courting Democrats at the expense of Republicans, Hill staffers and lobbyists say.

First, the Oxley camp was leaning on ICI to replace its current top lobbyist, a Democrat, with a big-shot Republican. "I am convinced a mes-

sage was sent," says Bar Frank of Massachusetts, Democrat on the committee.

Now, though, the mutual fund group will keep Democrat but also add a for a Republican, sources ICI says its search for a lobbyist has nothing to do with pressure.

Oxley spoiled a woman deputy as well, says Oxley's defense. The new lobbyist was ICI's idea. Either way, the fund industry's new face on Hill will be stepping into a minefield.

Mike McNair

OXLEY: Going after funds

RETAIL DETAIL

NIKE MAY NEED AN HEIR JORDAN

MICHAEL JORDAN DIDN'T PLAY his superhuman best during his last NBA All-Star Game on Feb. 9. But sales of the 18th edition of his shoe, released the same weekend at \$175 a pair, definitely scored.

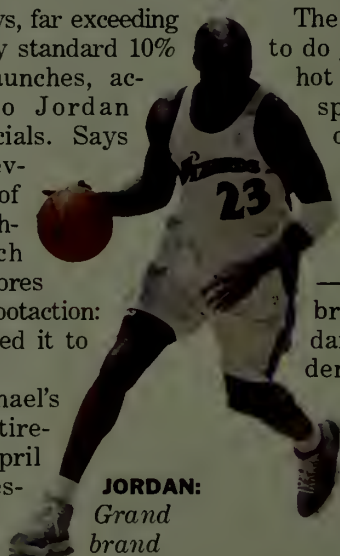
The new Air Jordans sold up to 55% of their stock in just two days, far exceeding the industry standard 10% for new launches, according to Jordan brand officials. Says Shawn Neville, CEO of Footstar Athletic, which runs 550 stores including Footaction: "We expected it to be good."

But Michael's planned retirement in April raises questions about just how

good Nike's \$350 million Jordan business will be in the future. Can the brand survive? Lack of court time could sink sales. "When player's not playing, [he's] the court, out of mind," says Bob McGee, editor of *Sporting Goods Intelligence* newsletter. "It means Nike will have to work hard through other athletes to keep the Jordan brand fresh and exciting."

The brand's officials admit to do just that, recruiting hot players from other sports—Derek Jeter of the Yankee, Philadelphia Eagle quarterback Donovan McNabb, and boxer Roy Jones Jr.—to wear Jordan brand shoes. Jordan officials are confident that the brand transcends the man. The product will be in high demand next year as Air Jordans soar.

Stanley Holm



JORDAN: Grand brand



What if we looked at the world
as one giant farm field?

©2002 Archer Daniels Midland Company

In tomorrow's global food economy, every crop will grow where it grows best.

And ADM can link farmers to almost any market in the world.

It's a natural way to improve agricultural efficiency, make food more affordable, and feed a hungry world.

Nature has answers. Is anyone listening?

Yes.



THE NATURE OF WHAT'S TO COME™

Up Front

EXECUTIVE SUITE

GEO PAY: PAIN, BUT STILL PLENTY OF GAIN

FOR INVESTORS WITH BRUISED portfolios, the misery of others is small consolation—except when it's the misery of CEOs. In all likelihood, 2002 will be the first time in a decade that executive pay

stock prices down, many CEOs won't qualify for big bonuses. And many will be unable or unwilling to exercise options, which have plummeted in value. CEOs also are confronting a harsh new reality: the inde-

pendent board. The post-Enron emphasis on independence is resulting in unwillingness to pay big bucks for so-so work. "The whole mind-set has changed," says Blackstone Group Vice-Chairman Hamilton James.

Take John Gifford of circuit-maker Maxim Integrated Products. With sales and profits down, Gifford got

no bonus, and with the stock off 13% for the fiscal year, he cashed in fewer options than in 2001. The result: a pay package worth \$16.3 million, vs. \$58 million in 2000.

Some CEOs took home megabucks despite poor performance. By exercising options granted previously, Sun Microsystems' Scott McNealy was able to net \$25.8 million. Plus, he received 3.5 million new options to compensate him for the diminished value of his stake in the company, where the stock is down 95%. For governance experts, that sounds like rewarding failure—and is a sign that real change may be a long time coming. *Louis Lavelle*



Scott McNealy
Sun Microsystems
TOTAL COMPENSATION (MILLIONS) **\$25.8**
CHANGE FROM 2001 **+1,021%**



John Gifford
Maxim Integrated Products
TOTAL COMPENSATION (MILLIONS) **\$16.3**
CHANGE FROM 2001 **-72%**

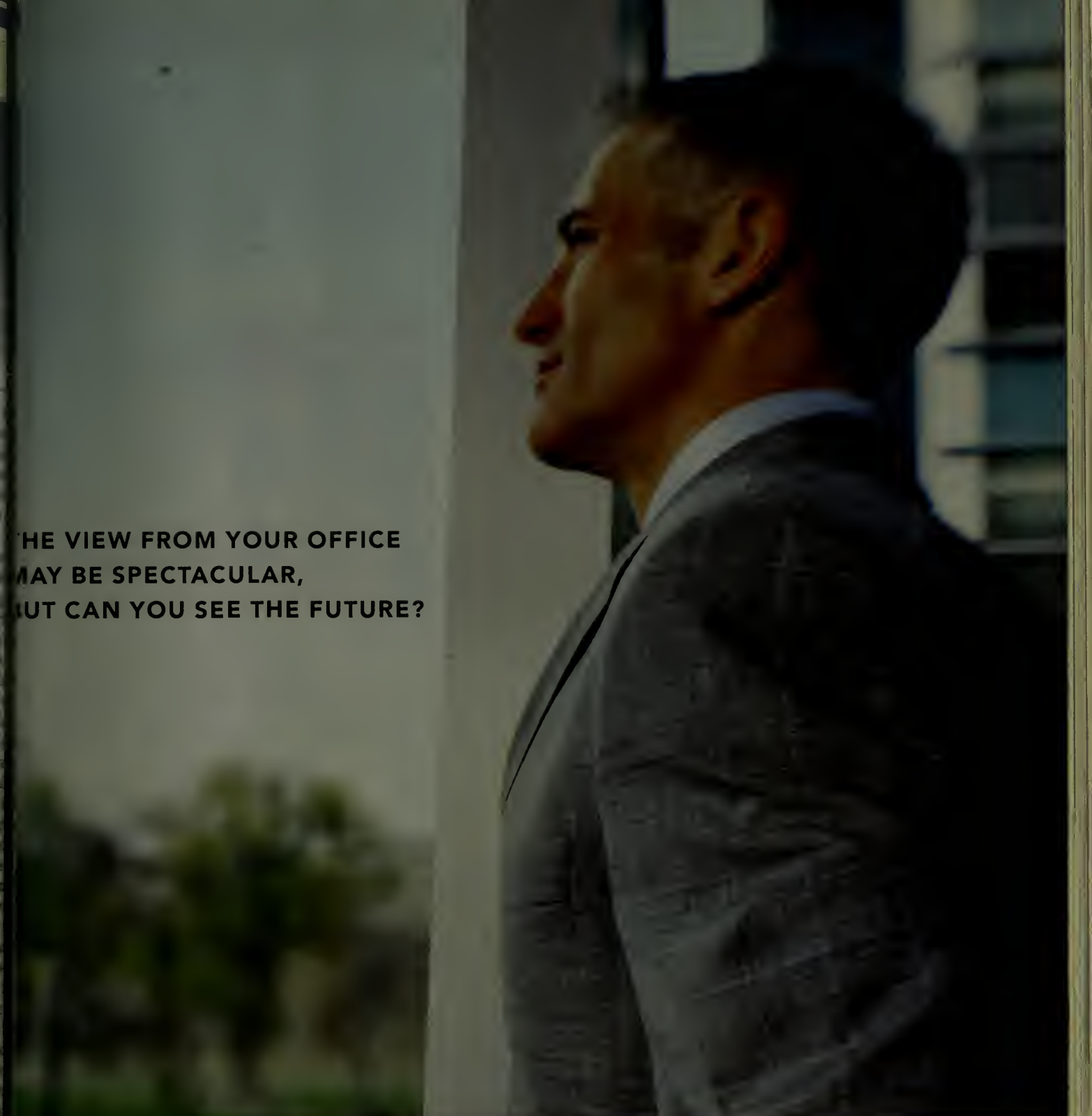
has had two consecutive years of double-digit decline.

Not every CEO will get clobbered, and some will make out like bandits. But overall, compensation consultants say, average pay for CEOs in *BusinessWeek's* Executive Pay Scoreboard will fall 10% to 15% in 2002. Added to the 16% decline in 2001, that will bring total compensation—salary, bonus, and exercised options—below \$10 million for the first time since 1997. Says Deloitte & Touche ex-CEO Michael Cook, who sits on pay panels at HCA and Dow Chemical: "There's pain here for everybody."

The reasons are threefold: With revenues, profits, and

DRAWN & QUARTERED





THE VIEW FROM YOUR OFFICE
MAY BE SPECTACULAR,
BUT CAN YOU SEE THE FUTURE?

FIDELITY
WORKPLACE
SERVICES[®]

HR/Payroll
Defined Benefit
Defined Contribution
Health and Welfare
Stock Plans

Where will your company be in 3 years? 5 years? 10 years? Whatever the outlook may be, there's only one HR/benefits outsourcing provider ready to serve your company's changing needs. For a solution that's comprehensive, visit fidelity.com/workplace or call Joe Dattilo at 866.733.1033. Because when it comes to your vision, short term fixes just aren't enough.

COMPREHENSIVE HR/BENEFITS OUTSOURCING



Employer Services Company LLC

334749

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS:
 Joyce Bamathan, Frank J. Comes, Robert J. Dowling, Kathy Rebello
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Peter Elstrom, Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Amst, Stephen Baker, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehring, Seymour Zucker (Sr. contributing ed.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.); Michael S. Serrill (Sr. ed.); David Rocks, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe)
ASSOCIATE EDITORS: Robin Ajello, Dan Beucke, Diane Brady, Nanette Byrnes, Amy Dunkin, Mike France, Todd Gutner, Steve Hamm, David Henry, Gerry Khermouch, John Koppisch, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green, Computers: Spencer E. Ante, E-Business: Timothy J. Mullaney, Finance & Banking: Emily Thornton, Heather Timmons, Industries: Adam Aston, Internet: Heather Green, Management: Louis Lavelle, Markets & Investments: Mara Der Hovanesian, Media: Tom Lowry, People: Susan Berfield, Personal Finance: Lewis Braham, Carol Marie Cropper, Susan Scherrek, Anne Tergesen, Scoreboards: Frederick F. Jespersen, Telecommunications: Steve Rosenbush, Up Front: Sheridan Prasso (Sr. news ed.), Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports Business)
STAFF EDITORS: Jennifer Merritt, Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Aleta Davies, Doug Royalty (Sr.); Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Monica Roman, Lourdes Valeriano, Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keating, Robert J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.), Jamie Elsis, Edith Gutierrez, Ron Plyman (Asst.), Graphics: Joan Danaher (Director); Rob Doyle (Deputy dir.); Laurel Daunis-Allen, Joe Calviello, Alberto Mena, Ray Vella; Eric Hoffmann, Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), Neal Fontana, Nita Le, Rich Michiel, Leo Nietter, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne O'Aprix, Kathleen Moore, Andrew Popper, (Assoc.); Sarah Greenberg Morse (Asst.); M. Margarita Eiroa (Traffic mgr.); Burt Hughes, Mindy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.), Karen Butcher, Francisco Cardozo, Thomas R. Dowd, Stephen R. Lebron, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Ilse V. Walton (Edit map mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Y. Steve Ben-Ari, Yo-Lynn Hagood, Steven McCarthy, Anoop Srivastava, Craig Sturges, Mauro Vaisman
ONLINE: Michael Mercurio (Managing ed.), Arthur Eves (Creative dir.), A. Peter Clem, John A. Dierdorf, John Johnson; Will Andrews, Heather Barry, Jaime Beauchamp, Jane Black, Joleen Colpa, Roger Franklin, Brian Hindo, Olga Khariif, B. Kite, Matt Kopit, James Kutz, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Arney Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksana
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad, Boston: William C. Symonds (Mgr.), Faith Keenan, Chicago: Joseph Weber (Mgr.), Roger O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Bernier, Pallavi Gogoi, Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park, Detroit: Kathleen Kerwin (Mgr.), David Welch, Los Angeles: Ronald Grover (Mgr.), Larry Armstrong, Christopher Palmeri (Sr. correspondents), Arlene Weintraub, Philadelphia: Amy Barrett (Mgr.), Seattle: Jay Greene (Mgr.), Stanley Holmes, Silicon Valley: Robert D. Hof (Mgr.), Linda Himelstein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O'C. Hamilton, Jim Kerstetter, Louise Lee, Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.); Rich Miller (Sr. writer); Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. correspondents); Amy Bonus, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Woellert, Catherine Yang, Douglas Harbrecht (Online: Sr. news ed.), Beth Belton (Online: News ed.), Beijing: Dexter Roberts (Mgr.), Bombay: Manjeet Kripalani (Mgr.), Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Christine Tierney, Hong Kong: Mark L. Clifford (Mgr.), Frederic Balfour, Bruce Einhorn, London: Stanley Reed (Mgr.), Kerry Capell, Mexico City: Geri Smith (Mgr.), Moscow: Paul Starobin (Mgr.), Paris: John Rossant (Mgr.), Carol Mattlack, Andy Reinhardt, Rome: Gail Edmondson (Mgr.), Seoul: Moon Ihlgwan, Singapore: Michael Shari (Mgr.), Tokyo: Brian Bremner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kunii
EDITORIAL SERVICES: Broadcasting: Ray Hoffman, Business Manager: Barbara Boynton, Communications: Heather Carpenter, Christine Fountaine, Andrew Palladino, Nancy Sheed, Information Services: Jamie B. Russell (Director), Susann Rutledge (Research mgr.), John Cady (Technology mgr.), Fred Katzenberg, David Polek, Susan Zegel, Office Manager: Roselyn Kopit, Readers Report: Yvette Hernandez, Reprint Permission: Nancy Johnson, Special Asst. to Editor-in-Chief: Christine Summerson

WHAT HAPPENS WHEN AMERICAN JOBS SLIP AWAY?

Re ("Is your job next?" Cover Story, Feb. 3): We blue-collar workers have been telling you white-collars for more than 20 years that we all should be buying American. But no one listened. You white collars had to have your imports while bad-mouthing American products. You never looked back until it was too late. Hop into the lifeboat with us—hope you can find a seat.

Thanks. I needed that.

John Fisher
Hawthorne, Calif.

Who started the myth that only low-level programming jobs would leave the U.S.? Software designers start out as programmers. The best move up the ladder into software-engineering jobs. It is nearly impossible for a nonprogrammer to design software. If they succeed in shipping the programmer runs offshore, guess what: All the software designers will be in India—and the U.S. will be paying dearly for their services.

Brian Lafferry
Addison, Tex.

In the tool-and-die business, I witnessed firsthand in 1982 the outsourcing of mold-building overseas. It took 20 years to move these highly skilled jobs offshore, but that was only because communication was such a problem. Now, with modern communications and an in-place network of offices, I believe it will only take two to three years to get the knowledge industry offshore.

Gary W. Chmielewski
Bryan, Ohio

You say we may retain jobs in "higher-value industries" and that "our competitive advantage may shift to other fields." Like what? If we lose engineering, finance, architecture, computer management, business operations, sales etc., what are we all going to do?

I personally don't know many people who provide cutting-edge biotech research and development. Do you?

James P. Wolow
Harrisburg, Pa.



What are the chances that shareholders will see even greater cost savings by having the next tier of jobs, i.e., senior management and executives, also move overseas? No doubt millions upon millions of dollars can be saved by employing less expensive substitutes abroad.

Yvette Tazewell
San Jose, Cal.

What has been overlooked in all the worries about global outsourcing is the powerful impact it will have on American entrepreneurship. Global outsourcing dramatically changes the economics of the startup. Entrepreneur can now plug in call centers, IT centers, and a range of other services at very low cost and have a scalable platform within months—not the years it would normally take. When venture investment returns, we will see a flourishing of companies growing at a pace that will make the '90s startup look like a slow-motion video.

Jack D. Hidar
New York

A true measure of a country's leadership position and prosperity is its in-

PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carvalho
VP, MARKETING: Patricia Crocker France

VPs, SALES: Mark A. Flinn (Eastern region and BWTV), Grant A. Gerstl (Midwest reg.), Robert J. Maund (West reg.), Lou Tosto (Eastern region)
VP, INTERNATIONAL/NORTH AMERICA SALES: Rik Gates
VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maraviglia
VP, MANAGING DIRECTOR-ASIA: Alan Lammin
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, CONSUMER MARKETING: Joyce Swingle
VP, BUSINESS DEVELOPMENT: Geoffrey O. Broderick
GENERAL MANAGER, BUSINESSWEEK ONLINE: Peggy White

The McGraw-Hill Companies

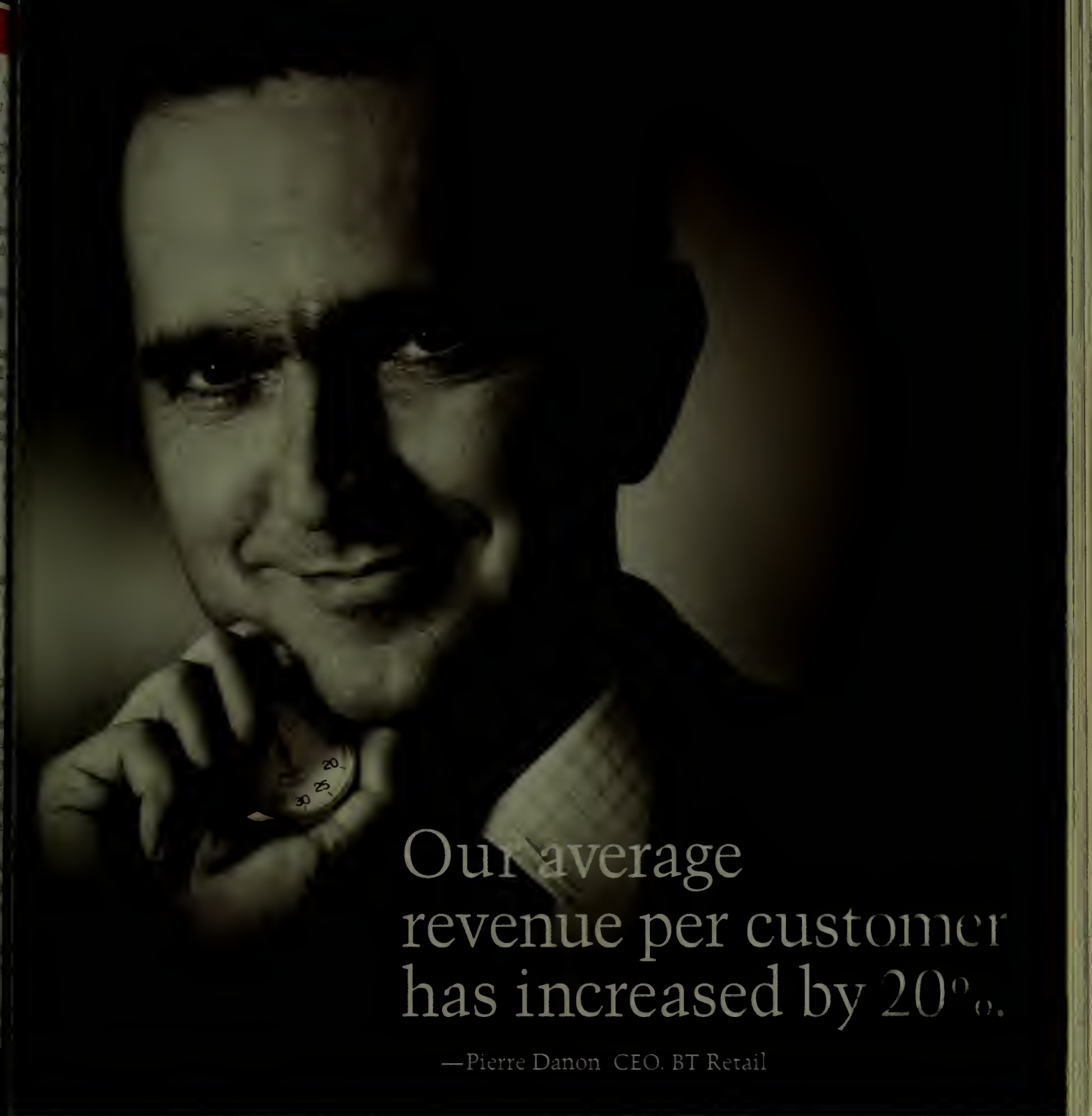
BusinessWeek
FEBRUARY 24, 2003 (ISSN 0007-7135) * 3821**

Published weekly, except for one week in January and one in August and an additional issue the first week of May, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948). Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127032; Intl. 230107. U.S. subscription rate: 1 year \$59.97; 2 years \$109.97; 3 years \$159.97. Canadian subscription rate: CDN \$94.95 per year; 2 years CDN \$157.45; 3 years CDN \$189.95. Mexico Subscription 1 year U.S. \$105.00, Brazil 1 year U.S. \$150.00, all other Latin America countries 1 year U.S. \$170.00; 2 years U.S. \$325.00. Outside of U.S., Canada and Latin America: U.S. \$190.00 per year. Single copies/back issues: \$9.95. Call 1-800-288-9667 or email: busweek@mh.com. Subscriber Services: 1-800-433-1200. TDD: 1-800-554-1579. Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO 80322-3235. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Canada Post Publication Mail Agreement Number 40012501.

Registered for GST as The McGraw-Hill Companies, Inc. GST #R12307567. Copyright 2003 by The McGraw-Hill Companies, Inc. All rights reserved. Registered in U.S. Patent Office. European Circulation Center, McGraw-Hill House, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 848640.

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, Chairman, President, and Chief Executive Officer; Kenneth M. Vittor, Executive Vice President and General Counsel; Robert J. Bahash, Executive Vice President and Chief Financial Officer; Frank D. Pengelase, Senior Vice President, Treasurer, and Chief of Staff.

PHOTOCOPY PERMISSION: Where necessary, permission is granted to the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$2.00 per copy of each article. Send payment to the CCC. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address requests for customized bulk reprints to BusinessWeek Reprints, 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3145. ISSN 0007-7135/00/\$3.95. PRINTED IN THE U.S.A.



Our average
revenue per customer
has increased by 20%.

—Pierre Danon CEO, BT Retail

Pierre Danon knows the importance of time. His 21 million customers expect a quick response. By using Siebel CRM software to streamline BT's Homemover program, call-handler satisfaction rose 4%. Customer satisfaction reached 86%. Revenues per customer rose 20%. And in just one 12-week period, 5,000 new accounts were identified. Timely improvements even the busiest CEO can appreciate.

SIEBEL

Proven CRM. Proven results.

To learn more, call 1-800-307-2181 or visit siebel.com/casestudies.

Readers Report

flow of monetary and human capital. This happens only when the intangible as well as tangible infrastructure of the country is superior—a just and open legal and economic system, efficient capital markets, high-quality educational, health, cultural, and recreational services, etc. If America's business and political elite concentrate on strengthening and renewing the U.S.'s physical and intangible infrastructure, American prosperity is assured. No matter how many jobs disappear, others will replace them.

But when China can complete a 30-mile magnetic-levitation urban transit system in Shanghai in two years, while in New York City, an ancient monorail system of less than 10 miles takes five years to build and crashes in its first trial run, let us remember that it is our concern with saving jobs rather than building infrastructure that destroys more and better jobs.

Rajan K. Pillai
Briarcliff Manor, N.Y.

The rest of the world has a love-hate relationship with America. Resentment in the extreme leads to terrorism. Brainpower, determination, education, hard work, and advances in telecommunications are giving citizens in low-wage countries the ability to compete with Americans in the capitalist marketplace. Short-term losses for Americans are painful, but the long-term result will be a healthier and safer world economy. Trade between countries is a net positive. People don't kill their customers.

Randy Kiriha
Bloomington, Minn.

America has taught the world that the liberation of productive forces in an open economy creates tremendous value. So, rather than focus on the loss of a few less-productive jobs, *BusinessWeek* should celebrate the world's net gain.

Gandhi advocated autarchy, or absolute sovereignty, but had India insisted its people become weavers and farmers rather than figure out how to add value internationally, it would not now be the world's largest software exporter.

Instead of panicking U.S. workers, *BusinessWeek* should help them retool for an evolving economy.

Brian Maddox
Dobbs Ferry, N.Y.

THE FCC'S CHANCE TO EASE THE WAY FOR BROADBAND

In "The FCC: It's show time for Michael Powell" (Washington Outlook, Jan. 13), the statistics attributed to

Corning Inc. are based on an economic study conducted by Cambridge Strategic Marketing Group (CSMG). They refer to fiber-to-the-home (FTTH) spending only. A key finding of the CSMG study is that FTTH would be deployed to six times more homes over the next decade and that an additional \$41 billion would be invested by incumbent carriers if unbundling requirements are not extended to FTTH. The unbundling regulations imposed in the wake of the Telecommunications Act of 1996 have had the unintended consequence of inhibiting broadband deployment. The FCC now has an historic opportunity to address these issues in its ongoing proceedings.

Wendell P. Weeks
President and Chief Operating Officer
Corning Inc.
Corning, N.Y.

THE CONSEQUENCES OF METAPHOR

Twice in your Jan. 27 edition—in "A Bushie who doesn't drink the Kool-Aid" (Books) and in "A scapegoat named Steve Case" (Editorials)—you used the metaphor "drink the Kool-Aid" to suggest deep commitment to a belief. More than 900 Americans, many of them children, died in the mass murder/suicide at the Peoples Temple Agricultural Project in Guyana on Nov. 18, 1978. They left behind thousands of friends and relatives who shudder every time they hear this phrase. The dead that day also included a U.S. congressman and several journalists. Twenty-five years from now, will you speak of "pulling a 9/11" or "knocking down the Trade Center" to signify a well-executed plan? Please amend your stylebook to consign this hurtful phrase to obscurity.

Doug Ellice
Bethesda, Md.

Editor's note: The writer served at the U.S. embassy in Georgetown, Guyana, from 1978-80.

WHO THOUGHT UP WHAT WOULD JESUS DRIVE?

"Don't tread on me—or my SUV" (News: Analysis & Commentary, Jan. 27) incorrectly credits the Interfaith Climate & Energy Campaign as the creator of the What Would Jesus Drive? campaign. While we shared a joint press conference, the WWJD campaign and Web site is the effort of the Evangelical Environmental Network. The Interfaith Climate & Energy Campaign is a coalition effort of the National Council of Churches and the Coalition

on the Environment & Jewish Life (www.protectingcreation.org).

Douglas Grace
Director

Interfaith Climate & Energy Campaign
Washington

CANADIANS FOUGHT—AND DIED— TO ROUT THE TALIBAN, TOO

I was quite surprised to read in "Foreign Policy: Bush's new pragmatism" (News: Analysis & Commentary, Jan. 20) that the U.S. and Britain single-handedly routed the Taliban from Afghanistan. I can assure you that Canada, though small in population, contributed both armed-forces personnel and several ships to the Afghanistan war. Some of our troops, it should be remembered, were killed by U.S. Air Force pilots in a friendly-fire accident.

Paul St. Amour
Houston

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archives starting in 1991 are available on the World Wide Web at: www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

We prefer to receive letters via e-mail, without attachments. Writers should disclose any connection or relationship with the subject of their comments. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

E-mail: bwreader@businessweek.com

Fax: (212) 512-6458

Mail: *BusinessWeek* Readers Report, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>

(click "Manage Your Account")

For individual subscriptions, corporate subscriptions, and other inquiries.

Phone: (800) 635-1200 Fax: (641) 842-6101

E-mail: bwcustomerservice@neodata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

E-mail: bw_group@businessweek.com

Latin America

Phone: Int +44 1444 475 649

Fax: Int +44 1444 475 506

E-Mail: Businessweek.subs@qss-uk.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

E-mail: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use;

\$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

E-mail: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm



**Over 6,000,000 boaters
don't know ITT Industries helps
keep them on an even keel.**

Nestled in the hulls of runabouts, commercial vessels and ocean-going yachts, Jabsco and Rule bilge pumps continuously return lake and sea to their proper homes, while our pressurized water systems tirelessly meet onboard supply needs.

ITT believes technology should be imperceptible. Here, fluid management keeps water safely at arm's length or comfortably within reach.

Right where you want it.



ITT Industries
Engineered for life

www.itt.com

MOTION AND FLOW CONTROL • Jabsco • Rule • Flojet • Danforth
ELECTRONICS AND SERVICES
HYDRAULIC COMPONENTS
FLUID TECHNOLOGY

THE FROZEN-WATER TRADE

A True Story

By Gavin Weightman

Hyperion • 254pp • \$23.95

THE MAN WHO BROUGHT ICE TO THE MASSES

At Walden Pond in the winter of 1846-47, Henry David Thoreau observed how “a hundred Irishmen, with Yankee overseers, came from Cambridge every day to get out the ice. They divided it into cakes...and these, being sledded to the shore, were rapidly hauled off....Thus it appears that the sweltering inhabitants of Charleston and New Orleans, of Madras and Bombay and Calcutta, drink at my well.”

Thoreau's tableau was but a fragment of a once-thriving and now largely forgotten U.S. business, the natural ice industry. Out-of-season ice sheltered in icehouses was once a luxury known only to the rich. But by the mid-19th century, Americans from all walks of life were accustomed to using it—preserving perishable food, chilling drinks, and making ice cream. Even more amazingly, the trade was global from the start. Taken from New York's Hudson River and the lakes and streams of New England, ice was transported around the world in insulated ships. In the winter of 1879-80 alone, between 8 million and 10 million tons were harvested, according to the U.S. Census Bureau, employing thousands of workers.

The U.S. ice industry and the way of life it spawned are profiled in the engaging, compact *The Frozen Water Trade: A True Story* by Gavin Weightman, a London-based writer and filmmaker. The volume is part of the burgeoning genre some are calling microhistories—stories about forgotten people and underappreciated phenomena that, their authors assert, transformed the planet. Like Dava Sobel's 1995, genre-defining *Longitude: The True Story of a Lone Genius Who Solved the Greatest Scientific Problem of His Time* and several other books, *The Frozen Water Trade* stars a visionary pioneer. In this case, it is Frederick Tudor, a 19th century Boston-area entrepreneur

without whom, Weightman asserts, the ice industry might not have existed.

A school dropout and indifferent apprentice at a Boston shipping company, the 22-year-old Tudor in 1805 hit upon the notion of shipping New England ice to the tropics. He sought out financial backers, but the idea met only with ridicule. So he and his brother William set out for Martinique, where, with the help of a timely bribe, they won a state-sanctioned monopoly. In 1806, they made their first shipment—130 tons—but with no icehouse in which to store the product, they lost between \$3,000 and \$4,000.

The brothers remained determined and made several ice shipments to Cuba. Then came hard times, as two U.S. government embargoes on shipping—the result of conflicts with European powers—threatened to destroy the project. Twice, in 1809 and 1812, Frederick was arrested and jailed in Boston for non-payment of debts. But he managed to build two large icehouses, one in Havana and one in Charleston, S.C., and in the process learned much about the little-understood physics of heat and cold. And soon, Tudor began to see that his best markets would be in the American South. By 1822, his business was flourishing in Charleston, Savannah, and New Orleans.

The extraction of lake or river ice was a grueling chore: Large chunks had to be broken away with pickaxes and sawed into manageable pieces on shore. Then, in 1825, came the first of several key innovations, the ice plow. One of Tudor's suppliers, Nathaniel Wyeth, fabricated a device that, pulled by spike-shoed horses, would cut deep grooves in the ice, allowing regular cubes to be prized out. The plow facilitated large-

scale ice harvests. What's more, the blocks could be stacked efficiently in icehouses, and they melted more slowly than irregular bits. Weightman says that this innovation, together with pulley mechanisms also concocted by Wyeth, would “transform America into the first refrigerated society, and make New England a major exporter of ice to countries as far away as India.”

India? Despite the odds, Tudor continued to feel the pull of exotic markets. There was also low-cost opportunity, since ships often traveled to India loaded only with ballast. The 1833 delivery of 100 tons was a sensation in Calcutta, where the British soon granted Tudor a monopoly. By the late 1840s they had become his best customers.

The Frozen Water Trade has its shortcomings: Even though the book runs only 254 pages, there's more about Frederick Tudor—his island estate, his late-life romance—than we really care to know. Meanwhile, one longs to learn more about the industry, which, after all, continued to exist well into the 20th century. For example, the Midwest was harvesting huge amounts of ice by the 1880s to supply several soon-to-be legendary U.S. companies. Milwaukee's Pabst lager beer, which became a leading national brand, had to be stored in near-freezing temperatures. And Chicago's Swift & Co. grew into

meatpacking behemoth by combining assembly-line abattoirs with refrigerated railcars to undercut East Coast butcher Weightman devotes only a few paragraphs to those developments.

From the mid-19th century, inventors made artificial ice using steam power, and by the 1880s, both the American South and India had largely switched to the manufactured stuff. The trade in Eastern cities remained strong until the 1920s, at which time there were mounting public worries about pollution. Meanwhile, such companies as General Electric Co. began using new, small-motor technology to make electric refrigerators, 3 million of which were in U.S. homes by 1937. By the 1950s, no more would the iceman cometh.

BY HARDY GREEN
Green is Books Editor



FREDERICK TUDOR TURNED AMERICA INTO THE FIRST REFRIGERATED SOCIETY

300° BROILER, 500° PLATE.



NO WONDER THE ATMOSPHERE IS WARM.

For Worldwide Locations and
Reservations call 1(800) 544-0808

www.ruthschris.com





**WHY NOT SEND YOUR CIO
TO I.T. FANTASY CAMP?**





EVALUATE



BRAINSTORM



PROTOTYPE & TEST



IMPLEMENT



iForce™ Solution Centers let you test your dream solution before you fully invest.

Why spend countless hours and dollars prototyping and testing a new solution in your own data center? Why take chances deploying that new solution without knowing for sure that it works? Instead of taking on the risk, the worry and the costs yourself, why not bring your next technology initiative to an iForce™ Solution Center?

The global network of iForce Centers, operated by Sun and world-class partners like CSC, Fujitsu, Avnet, Tech Access, Sierra Systems and EDS, is the ideal place to create and test your next business solution. A place where you can brainstorm solutions with some of the best minds in the business.

Bring in your best ideas. Your most ambitious, competitive initiatives. Even your problems. And let best-of-breed software companies like i2 Technologies, Manugistics and SAP collaborate to design, test and benchmark your solution on the exact hardware and software configurations it will ultimately be deployed on.

So whether you're in financial services, manufacturing or retail, you can leave the iForce Center with a battle-tested prototype that's proven to work in real-world conditions, in your own data center. Before you pay for the final product.

The bottom line? You get to invent solutions that move your business forward with significantly lower cost and risk. Which is a fantasy come true for any IT professional.

Learn more about iForce and browse our online directory of industry-specific solutions. Visit **SUN.COM/WHYNOT**



BY STEPHEN H. WILDSTROM

tech&you@businessweek.com

THE BEST-LAID PLANS OF COPYRIGHT LAW...



A law meant to thwart digital piracy is being used by tech companies to stifle competition

It's no surprise the entertainment industry uses copyright law to protect its products. But a printer maker? Lexmark International is doing just that—and it could cost you money.

If you have an Optra T620 laser office printer, you can buy a Lexmark-branded high-yield toner cartridge for \$395. Or you can buy a remanufactured cartridge made by other companies for \$170. Lexmark, which makes most of its money selling supplies—as do all printer makers—wants you to buy its toner. So it's using the Digital Millennium Copyright Act of 1998 (DMCA) to try to shut out rivals.

Congress rewrote copyright law with the stated intention of giving the owners of creative material, including music, books, and films, new weapons to fight the piracy made possible by digital media. Critics warned that the law was so broadly drawn that all sorts of companies might use it to stifle competition. Like most observers, I dismissed these warnings as paranoid ravings. But if Lexmark prevails in a lawsuit it has filed against Sanford (N.C.) chip-maker Static Control Components, their worst fears may come to pass.

Lexmark took advantage of a DMCA provision that bars tampering with copy-protection systems by prohibiting the sale of products designed "to circumvent a technological measure that effectively controls access" to copyrighted material. Lexmark puts chips in some cartridges that report the amount of toner left. The chip also generates a numeric code, and the printer won't work unless that code matches the number it expected. Static Control studied the chip and produced its own version, which it sells to cartridge remanufacturers.

In a suit filed in federal court in its home town of Lexington, Ky., Lexmark seeks to block the sale of the Static Control chips, which would effectively stop remanufacturers from selling most cartridges for Optra T-series printers. Lexmark argues that the chip code is a "technological measure" designed to prevent access to its copyrighted software.

Lexmark could lose the case on a technicality—specifically, that the program on its chip is too generic to qualify for copyright protection. Lexmark's legal ploy also has drawn considerable opposition, including a friend-of-the-court brief from the Computer & Communications Industry Assn. More important, Hewlett-Packard,

which dominates both the printer and the billion toner market, has no intention of following Lexmark's course. "We believe in custom choice," says Pradeep Jotwani, the senior vice president who heads HP's lucrative imaging-supplies business. "If they want to buy from manufacturers, that's fine. It's our job to make them not want to."

There is a danger, however, that all sorts of companies facing competition in parts and supplies businesses could add technological protections, then use DMCA as a weapon against third-party suppliers. One example: The auto industry, which long has wanted to shut down the independent crash-parts business, could put chip defenders. In a Chicago lawsuit, Chamberlain Group, which makes garage-door openers, is invoking DMCA to stop a Canadian company, Skylink Technologies, from supplying remote controls.

Some interim steps might slow a rush of lawsuits. Static Control has asked the U.S.



Library of Congress' Copyright Office to rule that small, embedded programs such as Lexmark's chip do not rate copyright protection. And the Justice Dept.'s somnolent Antitrust Division might keep a close eye on companies using the DMCA as a high-tech method to force bundling of products and services.

Even in the world of media, where it was intended to apply, DMCA has produced mostly rancor and litigation. Movie studios and others have found it easier to sue than to fix badly flawed copy-protection schemes, such as the Content Scrambling System, used with DVDs. Ultimately, only Congress can correct a truly awful law. So far, it has shown little inclination to act. A bill by Representative Rick Boucher (D-Va.) to create modest consumer exemptions to the anti-circumvention provisions is languishing on Capitol Hill. Eventually, the spread of DMCA litigation into an ever-widening circle of industries may force action. But it would be good for all concerned if Congress were to move before things turn ugly.

BusinessWeek online

FOR A COLLECTION OF PAST COLUMNS and online-only reviews of technology products, go to Technology & You at www.businessweek.com/technology/

JETBLUE AIRWAYS has a secret weapon in the airline competition: a virtual reservations center.

With virtually no overhead costs, no unhappy employees, no limits to growth. Because JetBlue's 600 agents all work

from home. In the state of Avaya, our contact center solution lets every agent field customer inquiries and book reservations in real time, in their socks if they choose, with a PC-based soft phone. Avaya helped JetBlue get off the ground

with \$4 million in revenue from 10,000 reservations its first week alone. See how your customer relationships can take off with the worldwide leader in multimedia contact centers at avaya.com/cc. Or call 866-GO AVAYA today.

IP Telephony

Contact Centers

Unified Communication

Services

EVERY JETBLUE AIRWAYS RESERVATIONS AGENT

works from home, sweet home with

THE VIRTUAL CONTACT CENTER

from Avaya, sweet Avaya.



BY ROBERT J. BARRO

THERE'S A LOT TO LIKE ABOUT BUSH'S TAX PLAN



WIN-WIN:
The reforms will promote investment and productivity. And if deficits result, they will curb government spending

Frankly, I have not been a fan of all of the economic policies of the Bush Administration. But the tax plan is excellent, the best proposal we've seen since 1986. At that time, President Ronald Reagan continued the work of the 1981 tax cuts by implementing a major reduction in marginal income-tax rates. This tax policy helped to sustain a 17-year economic boom from 1983 to 2000 (aside from the mild recession of 1990-91). Given the current economy, it makes sense to repeat Reagan's success by making our tax system friendlier toward investment and work, which the Bush proposal does.

The two key elements are the dividend tax exclusion and the acceleration of the cuts in marginal rates. The first will lessen the double taxation of income on capital and will, thereby, spur investment. The second will encourage work and productivity. It will also eliminate the adverse effects from the promised phase-in of the income-tax rate cuts, which encourages people to defer income until the lower rates occur.

The Administration has also proposed two new forms of tax-favored savings accounts, a lifetime account and a retirement account. Fact is, the current law is a confusion of tax-favored plans, involving an array of limitations on contributions, incomes, and withdrawals. The new plans add to the jumble. What we need is a simple system that leaves income on assets fully untaxed. I appreciate that the new savings proposals are intended to simplify and to move toward that goal. But I would have preferred that the Administration articulated this to the public and then proposed a straightforward plan for achieving this objective.

One common complaint is that the tax cuts will create federal deficits that will raise interest rates and impose other economic costs. It's hard to understand these arguments either from economic theory or history. According to theory, the predicted effects on interest rates would be small and of uncertain direction. That seems right empirically. In the 1980s, when deficits soared, nominal interest rates came down sharply along with inflation. Real interest rates fluctuated in a way unrelated to deficits and debt levels. The best measures of real rates come from the Treasury's inflation-protected bonds. The rates on 10-year bonds were above 4% when the budget surplus was at its peak in 2000, then fell sharply to 2½% today, as the surplus turned into deficit. There's no evidence that budget gaps raise interest rates.

One attraction of tax cuts and deficits is that they starve the government of revenue and thereby promote spending restraint. This worked particularly well in the 1980s. The Reagan tax reductions were a proclamation that the growth in the government had to stop—and, with some lag, that happened from the mid-1980s through the 1990s. Only recently, when the high tech boom led to soaring revenues and a budget surplus, did the restraint disappear and spending resume its upward trend. So, this gives us another reason to like deficits.

Whereas the main point of the Bush plan is to make the tax system more efficient and spur economic growth, the main complaints have been that it gives too much to the rich. Since the rich pay most of the income taxes, it is hard to see how we can have a substantial tax reduction that does not go mostly to the rich. For instance, in 2000, the top 5% of adjusted gross income accounted for 56% of the income taxes, whereas the bottom 50% paid only 4%. One reason the poor pay so little is the vast expansion of the earned-income tax credit, which lowered the taxes of the working poor.

The difference in tax payments between the rich and the poor is much more than one would expect from the differences in their income. According to U.S. Census Bureau figures on family income, the top 5% received 21% of total income in 2000, vs. 13% for the bottom 50%. Internal Revenue Service figures on adjusted gross incomes (which differ from the Census numbers by including capital gains and excluding cash transfers) show more of a spread—the top 5% got 35% of the total in 2000, and the bottom 50% got 13%. An accurate picture would be somewhere between the two sets of figures. Still, both sources demonstrate to us that the income tax is proportionately a much greater burden on the wealthy.

I do not see massive redistribution of income as a reasonable part of the government's business. Despite the financial practices of Enron Corp., most people's income comes from their skill and effort (or, through inheritance, from the skill and effort of their parents). People deserve to keep most of what they have produced and earned, after sharing reasonably in the tax burden for financing a limited government. I find nothing fair in people paying income-tax rates above 40% (which is the true number today at high incomes). Thus, for me, fairness complements efficiency in arguing for the wisdom of the Bush tax plan.

Robert J. Barro is a professor of economics at Harvard University and a senior fellow of the Hoover Institution (rjbweek@harvard.edu).

Has your money fund yield slowed to a trickle?



There *is* an alternative to today's low rates!

Consider the **Strong Ultra Short-Term Income Fund** for a higher return potential on your savings.

Easy access to your money.

The Fund provides you with check writing, and there are no penalties for withdrawal.

This Fund is not a money market fund, and its share price will fluctuate. Income can be offset if the share price declines. Therefore, we suggest you consider this Fund to invest cash you plan to hold at least one year.

THE STRONG ULTRA SHORT-TERM INCOME FUND

30-Day Current Yield
as of 2-5-03

3.39%

1-800-368-1565 | www.Strong.com

OR CONTACT YOUR FINANCIAL ADVISOR

STRONG 

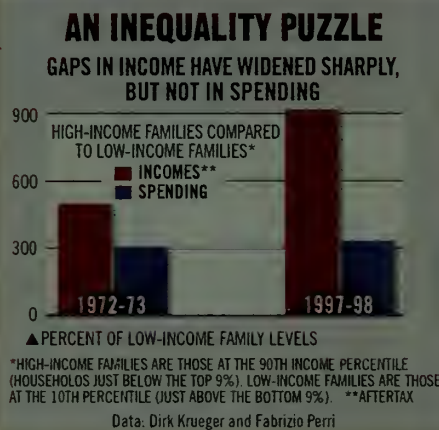
1.64%, 0.83%, 4.36%, 5.38% were the Fund's average annual total returns for the 1-year period ending 1-31-03 and 1-, 5- and 10-year periods ending 12-31-02, respectively. Performance is historical and does not represent future results. Investment returns, principal value, and yields vary, and you may have a gain or loss when you sell shares. Please keep in mind that the Fund is subject to interest rate risk—generally, when interest rates rise, its share price declines. Over the past year, the Fund's total return has trailed that of the average money fund. Current performance may be lower or higher than the quoted performance. Call or visit www.Strong.com for current performance information. For more complete information, including management fees and expenses, please call for a free prospectus kit or download one at www.Strong.com. Please read it carefully before you invest or send money. Performance is for Investor Class shares only. Please consult a prospectus for information about all share classes. ■ The Fund invests a portion of its assets in lower-quality securities that present a significant risk for loss of principal and interest. Please consider this before investing. ■ The Fund's average maturity is usually one year or less. ■ Retirement accounts may be subject to early withdrawal penalties. ■ Securities are offered through Strong Investments, Inc. RT31806 02-03

EDITED BY GENE KORETZ

SPENDING LEVELS OF RICH AND POOR

Surprisingly, the gap hasn't grown

It's somewhat of a puzzle. In recent decades, income inequality in the U.S. has increased sharply as the highest-paid Americans have pulled further ahead of middle- and low-income families. Many families have seen scant real income growth. Yet these trends have sparked little public outcry.



Observers attribute this subdued reaction to the public's abiding faith in the American dream of upward mobility. But a study by Dirk Krueger of Stanford University and Fabrizio Perri of New York University points to another possible factor. To their surprise, the two economists found that the rise in income inequality has hardly affected Americans' relative living standards.

Between the early 1970s and the late 1990s, they report, the average aftertax incomes of high-wage households surged from five times that of poor households to nine times. Yet the study shows that the consumption ratio of rich to poor families—their outlays on food, clothing, cars, housing, and other goods and services—stayed at roughly 3 to 1.

How could this happen? The study suggests that rising volatility of income caused by job instability is partly responsible. While richer households have responded to the volatility by saving more of their income, middle- and low-income households have done the opposite. They have borrowed more to enable them to maintain their living standards during bad patches.

Krueger and Perri deem this a positive development, an example of how the credit markets have met the needs

of our evolving capitalist system. In fact, consumers' enhanced ability to borrow mitigated the recent downturn.

But there's a potential downside. Survey data indicate that, even with low interest rates, one out of nine families with debts in 2001 were devoting over 40% of their incomes to debt service, and the number has climbed since then. Families that borrow during income declines tend to take longer paying off debts and to amass fewer savings for retirement.

The key question, then, is whether the New Economy will enhance the long-term income growth of middle- and lower-income families enough to offset their increased propensity to take on debt. If it doesn't, more people may face retirement with reduced savings—and income inequality could yet jeopardize the remarkable stability of America's relative living standards.

INFLATION VS. UNEMPLOYMENT

Which makes folks more unhappy?

Monetarists have long argued that the Federal Reserve's mandate to combat both inflation and unemployment should be revised to focus policy solely on inflation. Judging by a forthcoming study in the journal *International Finance*, however, such a shift might not sit well with the body politic.

In the study, based on data from some 280 surveys conducted in the U.S. and Europe from 1973 to 1998, political economist Justin Wolfers of Stanford University analyzed how people's views of their overall happiness are affected by present and past levels of inflation and unemployment. He found that a rise in joblessness is substantially more troubling to people than accelerating inflation—even when the period of unemployment is short-lived.

Wolfers' analysis indicates that a one-percentage-point rise in unemployment causes as much unhappiness as a five-point increase in inflation. Fluctuations in the jobless rate are also unsettling.

In sum, the prospect of declining job security worries folks a lot more than rapidly rising prices. The policy implications for Fed Chairman Alan Greenspan, says Wolfers, are clear: Keep an eye on both inflation and unemployment, but "when the trade-off for achieving greater employment stability is just a little more inflation instability, the gain in the public's happiness suggests it's worth it."

THE REAL VALUE OF DIVIDENDS

Double taxation isn't the only issue

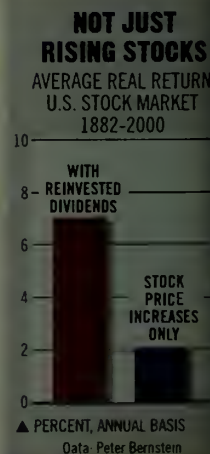
Although Wall Street economic consultant Peter L. Bernstein is critical of the President's new tax-cut package, he thinks the proposal to exempt dividends from personal income tax may have merit. But not simply because it ends the double taxation of dividends.

Rather, he hopes it will refocus investors' and business' attention on the critical contribution dividends have made to the stock market's vaunted long-term performance. Proponents of equity investing are fond of noting that stock have historically produced an average real annual return of 7%. "What's often forgotten," he says, "is that reinvested dividends account for fully two thirds of that number."

In Bernstein's eyes, that's no accident. A longtime critic of the Street tendency to disparage dividends, he's skeptical of the argument that it's better for companies to forgo dividends and reinvest all of their earnings themselves to provide low-taxed capital gains to shareholders. All too often, according to Bernstein, management is tempted to use the extra cash to fund questionable projects. "The practice of sharing a portion of earnings via cash payments to stockholders tends to sharpen management's focus on profit growth," he says.

A recent study of payout ratios (dividends as a percent of earnings) of Standard & Poor's 500-stock index companies supports this view (BW—Apr. 22). Looking over the past century—a period in which dividends were generally subject to taxation—high dividend payout ratios on the index consistently forecasted high average real earnings growth over subsequent 10-year periods. And low payout ratios signaled low earnings growth.

Thus, in Bernstein's view, "renewed stress on dividends would not only provide investors spooked by recent accounting scandals with reliable evidence of companies' fundamental financial health. It would also enhance business' and the economy's long-run performance."



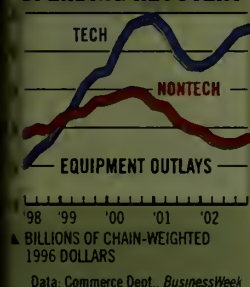
TECH IS LOOKING UP—BUT IT WON'T KICK-START RECOVERY

Stronger growth requires all businesses to expand capacity and payrolls

U.S. ECONOMY

For two years now, the tech sector has been the focal point of this business cycle. The recession began with a tech-sector bust as the stock prices of dot-coms, computer makers, and software companies collapsed, leading to an investment-led downturn in the economy. Now, everyone is waiting for tech spending to regain momentum and begin to power an investment-led recovery that workers, executives, and investors can actually feel.

TECH LEADS THE CAPITAL-SPENDING RECOVERY



Now more than ever, capital spending serves two different purposes for businesses: High tech means productivity, while low tech means expansion. For instance, computers and software can increase the output efficiency at a plastics company and lower the cost of making one of the company's products. Those innovations can help the bottom line when demand is weak. But as demand picks up, increased productivity can only go so far. The company will need more injection molders, extruders, and buildings to house them.

To be sure, the economy's favorable structural trends—productivity, inflation, and standards of living—are noted in high-tech innovation. But short-term, tech won't be the recovery's savior. This upturn must enter the expansion phase, when companies hire more workers and invest in new plants, furniture, and basic machinery. The oft-overlooked low-tech sector will be the place to look for signs that demand is strong enough to justify increased payrolls and capacity that will generate faster growth in household income and profits.

SO FAR, THOUGH, BUSINESSES are concentrating on productivity and ignoring expansion. The data show that real business outlays for information-processing equipment such as computers, software, and other office gear have risen in each of the past four quarters, for a total gain of 9.2% over the past year. The volume of

tech outlays has actually regained almost all of the 10.5% drop suffered during the recession.

That's after adjusting for declining tech prices, a trend that is helping to depress profits and the stocks of many tech companies. But thanks to those falling prices, which reflect advances in technology, businesses economywide are able to boost their computing capabilities without increasing their tech budgets (chart).

The rebound in tech outlays reflects how the structure of this economy is evolving. Simply put: Companies know that relentless competitive pressure demands the edge that technology can provide. That's why businesses will continue to focus on productivity enhancement.

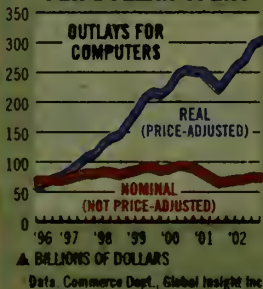
Don't worry that the recession losses in equipment investment will stunt the heightened long-term growth rate of productivity. Since peaking in the third quarter of 2000, real capital spending on all equipment fell 10.7% during the recession. That drop is in line with previous recessions, which saw peak-to-trough declines in equipment outlays ranging from 5% to 11.9%.

Moreover, the drop in outlays for tech equipment has been accounted for largely by the bust in telecommunications equipment, which accounts for one-sixth of real overall spending on tech gear. Outlays for telecom gear plunged 31% from the end of 2000 to the end of 2001. They have stopped falling but have gone nowhere during the past year.

By contrast, over the past five quarters, real business outlays for computers and peripheral equipment, which account for one-half of all tech outlays, have grown at an annual rate of 28%. That's nearly as fast as the 32% annual clip from mid-1998 to mid-2000—the height of the boom. Excluding telecom, the recession decline in real outlays for tech equipment was confined to only two quarters and amounted to only about 5%. Minus the drag from telecom, tech outlays are now about 8% higher than their pre-recession peak.

HOWEVER, BUSINESS SPENDING on low-tech industrial machinery is lagging far behind. Those investments began to fall two quarters before the downturn in tech spending began. The two-year dropoff,

MORE COMPUTING POWER PER DOLLAR SPENT



twice as long as the tech decline, was greater in both percentage and volume. Only at the end of 2002 did this sector start to bottom out.

Perhaps the biggest drag on spending for expansion is the rise in global risk. As Federal Reserve Chairman Alan Greenspan said in his semiannual congressional testimony on monetary policy on Feb. 11: "Indeed, the heightening of geopolitical tensions has only added to the marked uncertainties that have piled up over the past three years, creating formidable barriers to new investment and thus to a resumption of vigorous overall economic activity." In other words, business won't expand while Iraq clouds the future.

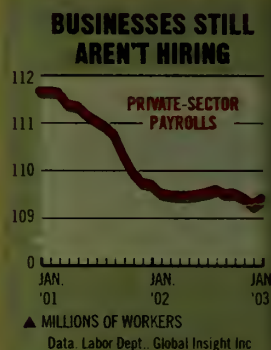
Another reason for the sluggishness in more traditional capital equipment is the collapse of commercial construction, which has fallen 25% over the past two years. That drop is greater than the real estate collapse in the early 1990s related to the savings and loan meltdown. Vacancy rates remain generally about double what they were two years ago. Not surprisingly, outlays for office furniture and other low-tech office staples have followed business construction lower. Such outlays are also down 25% from their peak in 2000.

WITH EXPANSION ON THE BACK BURNER and efficiency gains at the forefront, it is not surprising that payrolls continue to go nowhere. The Labor Dept. reported that in January, employment increased by

143,000 workers, but that followed a 156,000 drop in December. The pattern mainly reflected less hiring by retailers during the Christmas season, which meant that fewer retail employees were laid off in January. The drop in the January unemployment rate, from 6% to 5.7%, also looks suspect.

On balance, the labor market appears to have stabilized, but the economy is still not growing fast enough to generate healthy job growth that will bring a lasting drop in the unemployment rate. Part of the reason is the success businesses have had in boosting productivity. Despite losing more than one million jobs over the past five quarters, the economy still grew at an annual rate of 2.8%.

That pace used to be considered decent, but now will take much faster growth to lift payrolls and profits. However, that pace won't be reached until war uncertainties have passed. Then, look for the expansionary effects of low-tech capital spending to kick into high gear even as the ongoing imperative to edge out the competition keeps tech outlays rising. That's when the recovery will start to feel like one.



BRITAIN

AN OUNCE OF PREVENTION AGAINST GLOBAL RISK

The Bank of England decided to take out some insurance for the British economy, which is becoming increasingly vulnerable to outside shocks.

The BOE caught financial markets off guard on Feb. 6 when it cut its policy rate by a quarter-point to 3.75%, the lowest since 1955. In announcing the move, the BOE said both domestic and global demand prospects for the next two years "are somewhat weaker than previously anticipated."

In its Feb. 12 quarterly report, the BOE trimmed its forecast for 2003 economic growth to 2.5%, down from the 3.1% expected in November. And it repeated its belief that any runup in inflation

was temporary and would "wind down" by the end of 2003. The report heightened expectations that the bank will cut rates again, perhaps as early as spring.

But the prospects of lower borrowing costs are increasing fears of a housing bubble. Home prices have been running at double-digit increases for almost two years, and consumers, using cash from mortgage refinancings, have been the main engine for the British economy,

which grew by an estimated 1.8% in 2002. Consumers kept their spree going in January when same-store sales grew by the fastest rate in five months.

Further stimulus would clearly

help the sagging manufacturing sector. Industrial output in 2002 shrunk by 3.5% last year, the biggest decline since 1991. Lower rates should help the factory sector by spurring domestic capital spending and by weakening the pound. A cheaper currency would lift export growth. Sterling has fallen about 2% since early December on a trade-weighted basis.

The BOE's rate-cut statement avoided any mention of geopolitical risks in the economic outlook, but that has to be on policymakers' minds. Britain remains the U.S.'s closest ally in its confrontation with Iraq, so any escalation is apt to affect Britain far more than other nations in Europe. As a result, the BOE's move and any more cuts could be viewed as a way to insulate the British economy from global uncertainties.



.....

IS IT US OR ARE THESE CONTAGIOUS?

.....



FedEx
Express

FedEx
Ground

FedEx
Express
International Services

"Highest in Customer Satisfaction with Small-Package Air Delivery Services"

"Highest in Customer Satisfaction with Small-Package Ground Delivery Services"

"Highest in Customer Satisfaction with Small-Package International Delivery Services"

.....

Thanks to J.D. Power and Associates. And thanks to all of our FedEx Express, FedEx Ground and FedEx Express International Services customers. You've shown that the quality and reliability of FedEx can be found in everything we do.

FROM ALL SIDES

With even GOP leaders attacking the President's tax-cut plan, it's likely to see plenty of changes

You could forgive George W. Bush, at this time of rifts in the Western alliance and continuing economic malaise at home, if he were to find some solace in the words of the 29th President, Warren G. Harding. "I can take care of my enemies, all right," Harding famously complained. "But my damn friends...they're the ones that keep me walking the floor nights!"

So it is with the current President. As he seeks international support for action against Iraq, longtime allies Germany and France are treating him like an out-of-control little brother. Earlier this month, when he floated a plan to

fundamentally restructure Medicare, key Republicans shot it down. Now, his ambitious \$1.46 trillion tax-cut agenda is facing resistance from some of his strongest allies, including GOP lawmakers and business interests. Even Federal Reserve Chairman Alan Greenspan knocked the tax plan in congressional testimony on Feb. 11.

Business lobbyists think large chunks of Bush's "growth and jobs" package will be pared back—particularly his \$385 billion proposal to end double taxation of dividends and his plan to create new tax-free savings accounts. And while many corporate reps offer public support for the plan, they are privately critical. Some have begun pushing competing ideas that would benefit their business clients, such as corporate tax-rate cuts or new investment incentives.

More important, many leading Republicans have been unwilling to offer the same unqualified support for the

Bush tax agenda that they did in 2001. Says Senate Budget Committee Chairman and Bush loyalist Don Nickles (R-Okla.): "There may be different ways to achieve the President's goals."

Greenspan made it tougher for Bush to win Hill approval for his plan when he told the Senate Banking Committee

Bush Tax Reform: Who Stands Where

	FOR	AGAINST	LIKELY OUTCOME
SLASHING DIVIDEND AND CAPITAL-GAINS TAXES	Blue-chip companies, Wall Street, and Capitol Hill conservatives eager for a consumption tax	High tech, foreign multinationals, and key GOP lawmakers who worry about too little stimulus, too large a deficit	The plan will be scaled back, with possible cap on the dividend tax
NEW TAX-FREE SAVINGS ACCOUNTS	Brokers and small-business execs who would close their company plans	Insurance companies that hear a death knell for annuities, and firms that manage small-biz retirement plans	Congress will approve modest expansions of tax-free savings but be as generous as Bush wants



the economy is "being held back" by uncertainty over war with Iraq. And he questions whether any fiscal stimulus is appropriate now.

Why is 2003 so different from 2001? Huge deficits have spooked a small but critical block of senators. And the massive size of the plan stunned many lawmakers. Also, public support for Bush's handling of the economy has sagged.

The President is fighting back. He has deployed his economic generals in an all-out attempt to sell his blueprint to voters. And Bush is raising his own profile with a series of public speeches and private meetings with key lawmakers. "It's a marathon," says Treasury Secretary John W. Snow. "And we're in the first hundred yards." Still, White House insiders concede that they stumbled at the starting line by blindsiding key GOP lawmakers with the scope of the package and failing to seek their support before the rollout. To make amends, Bush and his Cabinet have launched a belated charm offensive, pleading with senior Republicans to hold their fire.

The debate is just beginning, however, and by the time it's over, Bush is likely to come away with significant new tax cuts. Many elements of his plan—accelerating tax-rate reductions, providing immediate tax breaks for married couples and children, and giving small business new incentives for capital investment—have broad bipartisan support. Even the most controversial parts of his package—the dividend and tax-free savings measures—are likely to be scaled back rather than eliminated. And lawmakers seem inclined to add at least one tax break that Bush left out—new investment incentives for larger companies. "I think when all is said and done, the President is going to have a very major victory,"

says Senate Finance Committee Chairman Charles E. Grassley (R-Iowa).

Indeed, some insiders speculate that the White House is playing a clever tactical game. Bush may have proposed a dramatic plan, fully expecting Congress to chop it down but still approve major tax reforms. Others say the dividend debate has diverted attention from politically explosive rate cuts for the wealthy. The dividend plan, says one lobbyist, "has been the ultimate neon red herring. It's absorbing all the shots."

It certainly has plenty of critics. Deficit hawks fret that the costly package will throw the government deeply into debt just as the first baby boomers start drawing retirement benefits. Centrist Republicans such as Senator Olympia J. Snowe (R-Me.) are unwilling to back a big tax cut now that creates perpetual deficits in the future—especially one that does little for the many low-income residents of her state.

Moderate Democrats are even more recalcitrant. They're still angry at Bush's aggressive attempts to topple Democrats who voted for his 2001 tax cut, such as Senator Mary L. Landrieu (La.), and are unwilling to side with the President again. "Its support is very shaky," says one '01 backer, Senator Max Baucus (D-Mont.). Centrists want to scale down the size of the Bush plan. Senator John B. Breaux (D-La.), is pushing for a cap of \$500 on any dividend tax break. And moderates have met with Greenspan and plan to consult with former Treasury Secretaries Robert E. Rubin and Paul H. O'Neill, dismissed by Bush in January. Still, cautions Senator Ben Nelson (D-Neb.): "There is probably more support for tax cuts than resistance...but [they] have to stimulate the economy as quickly as possible."

That's a position echoed on the other side of the aisle, too. "We need measures that put money into the economy right now," says Senator George V. Voinovich (R-Ohio), who supports Bush's dividend-tax repeal in theory but not in these days of growing deficits. "The dividend tax doesn't [offer stimulus], so we need to put it off until later."

Administration officials are hoping to

favors ending the double taxation of corporate dividends, but not at the expense of huge budget shortfalls. "Deficits must be maintained at minimal levels," Greenspan testified. The Fed boss, who backed Bush's 2001 tax cuts, argues that

FOR	AGAINST	LIKELY OUTCOME
RATING RATE CUTS, THE MARRIAGE DEDUCTION, ENDING ESTATE TAX	Congressional support for speeding up most rate reductions is wide, and Senate Finance Committee Chairman Grassley is a big fan	Nearly all Democrats will resist lowering rates for top-bracket taxpayers
CHARITABLE TAX WRITE-OFF, SMALL-BIZ INVESTMENT TAX CREDITS, CAPITAL EQUIPMENT	Almost unanimous Capitol Hill support—as far as it goes	Many lawmakers would extend it by increasing temporary incentives for all companies to buy equipment
		Congress will speed up at least some rate cuts, but permanent repeal of the estate tax is doubtful
		The small-business plan will fly, and additional incentives will be added for bigger companies

overcome the reluctance of centrists by drumming up support in the business community. But they may get a rude awakening. Some high-tech companies, for example, feel that the Bush plan would pressure them to pay dividends instead of using profits to build their businesses. Techies also oppose the requirement that shareholders get a dividend- or capital-gains-tax break only if companies pay corporate taxes. That may sharply reduce the value of common tax credits that

companies now use to reduce their own liability. A possible

compromise: scale back the dividend plan and boost incentives for corporations that buy capital equipment.

Other businesses have more fundamental problems. Stuart Boesky, presi-

dent of Charter Municipal Mortgage Acceptance Co., says the plan will undermine the value of tax credits, which are key to financing housing for the poor. "It will reduce the amount of new affordable housing that will be built in America," says Boesky.

At the same time, some investment firms object to the Administration's tax-advantaged savings accounts. Larry D. Zimpleman, executive vice-president for retirement and investor services at Principal Financial Group, says the accounts "could undermine employer-sponsored retirement plans."

Amid a widespread feeling that the President's package will undergo significant changes, corporate lobbyists are taking advantage of the opportunity to push their own pet tax breaks. Telecom companies are angling for new in-

vestment tax relief, some manufacturers are seeking lower corporate rates, and others are urging repeal of the corporate minimum tax. "The sharks," says one Senate GOP aide, "are circling."

After getting off to such a rocky start, White House strategists know will take a lot of work to sell the package, and the newly reconstituted economic team is fanning out across the country. With congressional committees unlikely to tackle the plan for at least a month, that gives Bush time to make some ground. And given his tax-track record, it would be foolhardy to count him out. But with so much friendly fire, don't expect a Rose Garden signing ceremony anytime soon.

By Howard Gleckman and Richard S. Dunham, with Alexandra Starr, Washington

A TALK WITH THE TREASURY SECRETARY

New Treasury Secretary John W. Snow has his work cut out for him. Job one: selling an Administration economic plan that has drawn bipartisan criticism in Washington and on Main Street—and from Federal Reserve Chairman Alan Greenspan. On Feb. 11, Snow, 63, met BusinessWeek Senior Writer Rich Miller and outlined plans for pumping new life into Bushonomics.

Before joining Treasury, you had a reputation as a deficit hawk. Now you're selling a plan that balloons the deficit. How do you reconcile that?

I don't see the great inconsistency. When I worked on the balanced budget amendment, I was concerned with the fact that deficits didn't seem to have any brake on them. We had no war. We had a well-performing economy. But it was all red ink ahead.

Now, we've had these staggering blows to the economy—the collapse of the NASDAQ, corporate scandals, to say nothing of September 11.... My view is that deficits, while unwelcome, are, one, a response to real national needs, and, two, manageable in the sense that they're relatively modest and will become smaller over time. They're not of the sort that imperil financial markets or raise interest rates.

But shouldn't we get back to sur-

pluses eventually?

It's important to be in balance over an economic cycle. On the other hand, we could run a 2% deficit forever and not upset financial markets. Debt is troublesome when it's large relative to our ability to pay it off. We're not close to being there. Would I prefer smaller deficits? Yes. If we could stimulate the economy in the short term and grow it in the long term without deficits, I'd be all for it. But that just isn't reality.

Fed Chairman Greenspan supports the President's plan to end the tax individuals pay on corporate dividends but is critical of its impact on deficits. He says

the plan should be revenue-neutral. Why isn't it?

Lowering marginal tax rates is good tax policy. Ending the marriage penalty is good tax policy. Ending double taxation of dividends is good tax policy. I would be delighted to find wast-

fraud, and abuse to offset [some of these costs]. I'd like to see spending restraints to offset them. But I don't think we should give up on good tax policies that promise so much in the future.

Is the plan in as much trouble as we hear?

No. We've just begun to articulate [the case]. I think the dividend plan will be a centerpiece of the legislation that

“We’ve just begun to articulate [the

case]... New ideas take a while for people to digest”

SNOW: CARRYING THE BALL FOR BUSH

comes out of Congress. New ideas take a while for people to digest.

How do you respond to lawmakers who say the proposal does nothing to boost the economy now?

It does have a [short-term] impact. It would put more money in the hands of taxpayers right away. I'm also convinced that Corporate America will respond to the elimination of the dividend tax by paying a lot more dividends. Dividends will become a much bigger component of people's earnings.



COMMENTARY

By Rich Miller

GREENSPAN LETS FLY AT WASHINGTON MATH

When Federal Reserve Chairman Alan Greenspan trooped to Capitol Hill on Feb. 11 to deliver his semiannual economic report to Congress, he confessed there was a lot that economists don't know about fiscal policy. That's why there's so much controversy over such basic questions as whether budget deficits push up interest rates and whether government spending actually stimulates the economy.

But according to the chairman, there's one thing that's certain when it comes to government finances: The march of baby boomers into retirement will put a tremendous strain on the budget. It's a demographic time bomb that Washington can ill afford to ignore.

Greenspan's warning was an indirect swipe at the Bush Administration. He is clearly concerned about the breezy dismissals of the damage done by mounting budget deficits as Administration officials have promoted the President's tax-cut plan. And he is worried that the politically driven Bushies won't have the guts to rein in runaway spending to make sure the budget math all adds up.

Contrary to the claims of supply-siders inside and outside the Administration, this is not a problem that the U.S. can simply grow its way out of, the Fed chief made clear. Even the New Economy—in which Greenspan remains a fervent believer—isn't capable of generating the huge increase in productivity required to pay the bill for supporting the retiring boomers.

As a start, the Fed chief told the Senate Banking Committee, Washington must get a better handle on the size of the nation's fiscal crisis. Unfortunately, the way the government manages its books obscures the problems on the horizon. Yes, a budget deficit of 2% to 3% of

gross domestic product may well be manageable, as the Bush Administration maintains. But the annual totting up of what the government takes in and puts out doesn't account for the trillions of dollars in IOUs that Washington is running up.

What's needed, according to Greenspan, is a different type of accounting that takes a longer-term view of government finances. On the plus side of the government ledger: the taxes that retiring baby boomers will have to pay when they cash in their individual retirement accounts and 401(k) pension plans. On the minus side: Social Security checks and Medicare benefits.

In the budget released on Feb. 3, the White House took a stab at coming up with an estimate of what Washington will owe in the future. According to the calculation, Social Security is in the hole to the tune of almost \$5 trillion, while Medicare is in the red by more than \$13 trillion.

What does Greenspan think should be done? First of all, he is saying: Do no harm. That means finding a way to offset any tax cuts or spending increases elsewhere in the budget so there's no increase in the deficit. Even tax cuts that Greenspan thinks will be good for the economy—such as the Administration's \$385 billion dividend plan—need to be “revenue neutral.”

The White House says it's ready to go down that road—only just not yet. It has proposed that Congress reinstate pay-as-you-go budget rules, but not until its \$1.46 trillion tax-cut plan passes. That attitude clearly worries



Greenspan. “At the present time, there seems to be a large and growing constituency for holding down the deficit,” he said. “But I sense less of an appetite to do what is required to achieve that outcome.”

There's even less appetite for taking the necessary steps to address America's long-term fiscal problem by reforming Social Security and Medicare. In an effort to control escalating medical spending, the White House floated a plan that would have required retirees to sign up with cost-conscious health maintenance organizations in return for government help with their drug bills. But the Bushies backtracked after the idea ran into a storm in Congress.

Such problems can't be swept aside much longer. There may not be much certainty in life, but the demographics driving the budget are as inevitable as death and taxes.

Miller writes about the Federal Reserve from Washington.

“At the present time, there seems to be a large and growing constituency for holding down the deficit. But I sense less of an appetite to do what is required to achieve that outcome” —ALAN GREENSPAN

SAVINGS

THE INVESTORS' DREAM ACT OF 2003

If enacted, Bush's plan could reshape your financial life

Investors, start smiling: President George W. Bush is so eager to see you sock away more money that he has proposed what can only be called the Investors' Dream Act of 2003. The plan puts an array of tax-favored accounts at your disposal. It lets you tap your nest egg whenever you wish rather than delay gratification until retirement. Other good news: You won't be hit with tax penalties if Junior blows his college fund on a Corvette. "This plan is nirvana," gushes Debra L. Morrison, a financial planner in Chatham, N.J.

Too good to be true? Probably. Congressional support for the President's tax proposals is weak, and no doubt they will change much between now and enactment. Still, even if the proposals are scaled back considerably, they will dramatically reshape how we save and invest.

For many people, investing would become practically a tax-free activity under the current proposal. Every American—kids included—could contribute \$7,500 annually to a lifetime savings account (LSA) that could be tapped at any time. If you hold a job, or your spouse does, you'd be able to squirrel away an additional \$7,500 a year each in a retirement savings account (RSA) that can't be touched until age 59. Although you'd have to fund both accounts with aftertax dollars, you'd never pay taxes on earnings. RSAs would replace today's individual retirement accounts (IRAs).

None of this would prevent you from having a 401(k), which under the act would be renamed the employer retirement savings account (ERSA). Just as you do today, you could set aside up to \$12,000 annually (\$14,000 for those 50

PRIORITIES

The new accounts wouldn't mean you should stop socking away pretax dollars in your 401(k)



and up) in pretax dollars and pay taxes when withdrawing funds in retirement.

How would these new accounts affect you? Let's say you and your working spouse are fiftysomethings with grown kids and are a decade away from retire-

ment. You should be earning your highest income, and you're in a good position to save a lot of it. Total up the maximum contributions on the various accounts, and you two could put away as much as \$58,000 a year, vs. the \$28,000 you can put in tax-favored accounts today.

Already retired? The two of you could benefit by transferring certificates of deposit and other income-generating investments you now keep in taxable accounts to LSAs. You can't move all of it at once, just \$7,500 per person per year. Still, you should move as much as possible—because in effect, "it's like a

tax-free checking account," says tax adviser Ed Slott of *Ed Slott's IRA Advisor*, a monthly newsletter.

If you're a parent saving for your kids' college education, the LSA would offer more flexibility than state-sponsored 529 college tuition plans, which are similarly funded with aftertax dollars. Unlike the 529s, the LSA gives you complete say over investment choices.

Moreover, you can use the money for any purpose, not just college. And although \$7,500 a year may not be enough if your kids are aiming for elite private university, there's nothing to stop you from contributing to both the LSA and a 529 plan. Still, there's one drawback: Unlike 529 accounts, the LSA belongs to your child, so once he comes of age he can take the money and run.

Since many of these new accounts will be funded with aftertax dollars, your first priority should be putting away pretax dollars as you already do with a 401(k). "Never pay taxes today that you can pay tomorrow," says David Rhine, regional director of family wealth planning at Sagemark Consulting. At the very least, you should fund the ERSA up to the amount that your employer provides matching contributions. The next best choice is the LSA, because you can withdraw money anytime. Of course, that's a double-edged sword: If you use the dough for splurging, it won't be there for retirement or education.

Figuring out how best to take advantage of the rash of new investment accounts isn't easy, since nothing is yet concrete. Follow their progress through Congress, and be ready with a plan of action the moment they become law.

By Susan Scherreik, with Lew Braham, in New York

BUSH'S SAVINGS ACCOUNTS: STRATEGIES FOR THREE INVESTORS

RETIREES Move CDs, bonds, and other similar investments into a Lifetime Savings Account, and the earnings become tax-free. LSA contribution is capped at \$7,500 a year, \$15,000 for couples.

PRE-RETIREES Take advantage of your prime earnings and savings years to sock away as much as \$58,000 a year (for couples who are both employed) in new and existing tax-favored accounts.

PARENTS WITH YOUNG CHILDREN Start college savings with LSA instead of 529 plans—you get more control over the investments and avoid taxes and penalties if the money is used for something else.

c it generate.

CIT helps fuel the energy industry's continual search for new resources—like geothermal and solar—with everything from project financing to working capital. Drill down for details at CIT.com. We see what you see.



Long before it moved to boot its top two executives over questionable tax shelters, Sprint Corp.'s board of directors had a reputation for weak corporate governance. In fact, Sprint's name was synonymous with many things shareholder activists love to hate, including massive stock option grants and option repricings. One former Sprint exec describes it as clubby, entrenched, and passive. It was only a matter of time before the board's weak oversight caught up with the company.

When it did, it was ugly. On Feb. 2, Sprint announced that Chairman and CEO William T. Esrey and his likely successor, President Ronald T. LeMay, were leaving. Their Sprint careers were cut short by a questionable tax shelter, set up by Sprint auditors Ernst & Young, that the two execs used to shield more than \$100 million in stock option gains. But if the board finally acted more decisively in ousting them, the housecleaning shouldn't stop there. Sprint's board itself needs to be reformed. The tax-shelter tale is just one more mistake of a board that was too close to management and too slow to ask the right questions.

Start with the makeup of the board itself. At just eight people, it's simply too small: Insiders Esrey and LeMay represented one-quarter of the total. It also lacks anyone with CFO or auditing experience. And corporate governance experts say some other directors don't exactly meet standards for independence, either. Director DuBose Ausley's Florida law firm received \$723,292 in legal fees from Sprint in 2001. Irvine O. Hockaday Jr., the former Hallmark Cards Inc. CEO who



COMMENTARY

By Louis Lavelle

SPRINT'S BOARD NEEDS A GOOD SWEEPING, TOO

sits on the compensation committee, is the most prominent outside director: A member of the board for five years, he's also Esrey's next-door neighbor and friend. The other two compensation committee members each have been on the board for more than two decades. "The board is too cozy," says Ned Regan, Baruch College president and ex-New York State comptroller.

The tax problems plaguing Esrey and LeMay—and the managerial crisis they have brought on Sprint—stem in part from the board's earlier compensation decisions. Simply put, the board inundated Esrey and LeMay with options, then accelerated their vesting schedule after shareholders approved a merger with WorldCom Inc.—even though regulators ultimately blocked the deal. After exercising many of their options, both execs agreed to the tax shelters. Sprint is being sued by shareholders over the accelerated vesting.

That wasn't the board's only misstep. In 2000, the company devised a stealth repricing technique that let

CEO ESREY:
Coddled and then ousted

Sprint's woes are hardly over. Its wireless unit is hemorrhaging customers, and its long-distance unit is losing market share. The company also needs an arbitrator's help to hire a CEO, since BellSouth Corp. filed suit to stop its vice-chairman, Gary D. Forsee, from joining Sprint.

Sprint's most compelling need is for a new CEO. But the board itself could use more truly independent directors. It needs more truly independent directors, including at least one with auditing expertise. Long-serving directors ought to go, and ties to Ausley's law firm must end. A new compensation committee, one not afraid to say no, should be appointed. An independent chairman willing to take on the new CEO is a must. Until those things happen, Sprint's investors will have little reason to believe that their interests rank highest around the boardroom table.

With Roger O. Crockett in Chicago

WHAT THE DIRECTORS DID WRONG

The board's most egregious missteps, according to governance experts:



LACK OF INDEPENDENCE

Insiders Esrey and LeMay make up a quarter of the eight-person board. A third director's law firm gets fees from Sprint. Two other directors have more than 20 years' service, which could make them too allied with management.

EXCESSIVE PAY

The compensation panel didn't seem to know how to say no to management. It repriced executive options and allowed execs to cash in options worth hundreds of millions of dollars when shareholders approved a WorldCom merger—even though regulators rejected the deal.

WEAK OVERSIGHT

The board required its outside auditor, Ernst & Young, to provide tax advice for Esrey and LeMay—and for more than two years did not stop the executives' use of a questionable tax shelter.

MEDIA

DIRECTV: HOW THIS DISH GOT REHEATED

In a tightening market, its big subscriber base is a huge plus



DirectTV is suddenly looking like hot property. In recent days, local telephone giant SBC Communications Inc. has emerged as a potential bidder for General Motors Corp.'s DirectTV satellite service. General Electric Co.'s NBC unit is also taking a look at it, say people close to the company. Then there's Rupert Murdoch's News Corp., which has lusted after the service for much of the past decade.

He also wants to make a bid, says News Corp. President Peter Chernin.

That's a lot of action for a company that only 16 months back was down to a single bidder—Charles Ergen's EchoStar Communications Corp., whose \$26 billion offer for DirectTV was rejected by federal antitrust regulators. What has changed? A lot. For starters, DirectTV's value has fallen by nearly one-third. And Comcast Corp.'s \$50 billion merger with AT&T's cable unit created a behemoth that has left other media and cable giants worried.

As a result, whoever wins DirectTV and its 11 million subscribers could reshape the media and telecommunications worlds. Should SBC win, it could hasten the long-sought convergence between telecom and TV distributors. If either NBC or News Corp. grabs the prize, it would suddenly join AOL Time Warner Inc. and Comcast as the only media companies that control both content and the means to distribute it to homes.

SBC's surprise entry shows how much it has been crippled by the loss of local customers to rivals like AT&T and WorldCom Inc. A bigger threat may come from the cable companies, which are si-

phoning off customers by offering telephone and data services bundled together with TV reception. All told, the increased competition cut SBC's customer base by 4.1% last year. SBC, under Chairman and CEO Edward E. Whitacre Jr., hopes to blunt the losses by combining phone service and Net access with DirectTV service. Wall Street has different ideas: News of SBC's interest sent its stock falling 8% in three days. Telecom analyst Susan Kalla of Friedman, Billings, Ramsey & Co. says it's a "falsity" that consumers want to buy their services from a single provider. Instead, industry experts say, telecom companies should offer deeper discounts on wireless service, which cable doesn't offer.

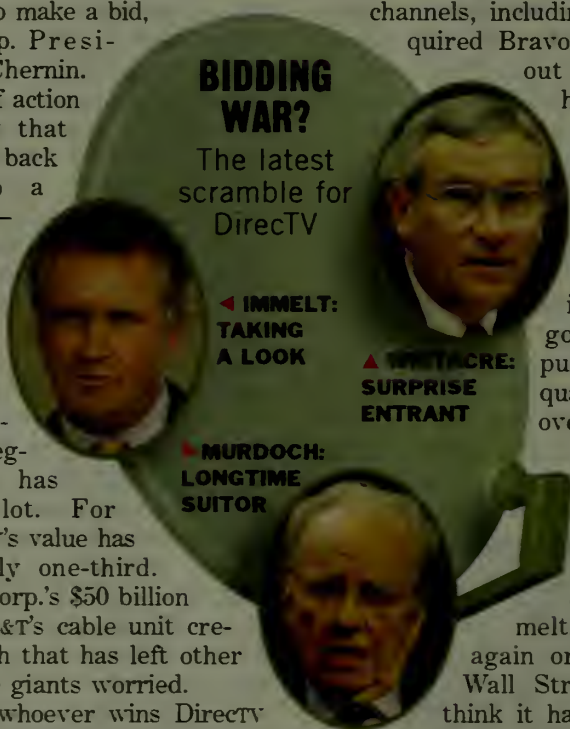
Why is NBC taking a look now? The company isn't saying, and has resisted big deals before. But with cable distribution in ever fewer hands, Tom Wolzien, a former NBC news executive and Sanford C. Bernstein & Co. media analyst, figures GE wants DirectTV to ensure that MSNBC and its other cable channels, including the newly acquired Bravo!, don't get shut out of viewers' homes.

Wolzien says GE could also take advantage of new rules for goodwill amortization that would allow it to write off goodwill from the purchase in one quarter rather than over several years.

DirectTV may still be Murdoch's to win or lose, especially if GE, under CEO Jeffrey R. Immelt, gets cold feet again or SBC buckles to Wall Street critics. "We think it has advantages for us," says News Corp. President Chernin, "but we will not be drawn into a bidding war."

Murdoch associates say he likely will up the \$4 billion bid he floated late last year for GM's 30% DirectTV stake. A new offer could come in late February, when GM unit Hughes Electronics meets with News Corp. and other potential bidders. How many suitors will show is the question for a suddenly very popular dish.

By Steve Rosenbush and Tom Lowry in New York, with Ronald Grover in New York and Roger O. Crockett in Chicago



BIDDING WAR?

The latest scramble for DirectTV

◀ IMMELT: TAKING A LOOK

▶ MURDOCH: LONGTIME SUITOR

▲ WHITACRE: SURPRISE ENTRANT



NICHE DUDS: But rivals are gaining

RETAILERS

TARGET: THE COOL FACTOR FIZZLES

Upscale buyers don't feel it's delivering on hip promises

Lori Hardwick was a devoted Target shopper. Like many Americans, she was wowed by Target Corp.'s hipper-than-Wal-Mart marketing campaign. But lately, Hardwick, who manages a Chicago financial services firm, has soured on the trendy discounter. She used to think Target was a step up, she says. Now Hardwick visits her local store less often.

If Target's recent numbers are any measure, more and more Americans are following suit. Over the course of 2002, Target's same-store sales growth slipped from a high of 6.8% in the first quarter to -1.1% in the fourth. So far, this year isn't any better. Although Target projected a sales hike of 1% to 3% for January, it reported sales up just 0.3% on Feb. 6.

Has Target lost its mojo? The weak economy isn't helping, but analysts say blame also lies with Target's strategy. It has long aimed at drawing higher-end buyers into the stores with its zippy ads, designer apparel, and trendy kitchen doodads, in hopes that they buy plenty of discount-chain staples such as detergent, paper plates, and toothpaste. But buyers are no longer flocking to Target for its cool stuff—and those who do often skip the staples in favor of cheaper rivals like Wal-Mart Stores Inc.

The result: Target is saddled with

FROM: Dallas TO: New York City

It only took Mark Lemon

40 HR 31 MIN 12 SEC

to demonstrate dependable delivery
starts at just \$3.85.

...did he do it? Priority Mail. And there's more than just cost savings. With Priority Mail service, you can get Delivery Confirmation[®] and Signature Confirmation[®] services and the convenience of the shipping for all your 2-day packages.* Used to ship more business packages than any other service. To calculate rates, print labels and pay postage, go to www.usps.com.

 **PRIORITY
MAIL**
UNITED STATES POSTAL SERVICE[®]

the higher marketing and fixed costs needed to attract upscale customers even as Wal-Mart and others are discounting heavily and, in some cases, muscling in on its high-style niche. The combination has hit earnings hard: According to UBS Warburg, Target's earnings grew an estimated 6.5% for the quarter ended Jan. 31, well below the 21% profit growth it posted a year ago. Says Salomon Smith Barney analyst Deborah Weinswig: "Target is between a rock and a hard place."

Target's advertising-heavy strategy is an increasing burden. The retailer, which declined to comment, spends 2.4% of sales on marketing. Wal-Mart spends just 0.3%. The high marketing costs are one big reason slowing sales hurt Target more. For every one percentage point fall in same-store sales, Target loses 3¢ a share in earnings, says Weinswig. The same sales drop costs Wal-Mart just 2¢ a share.

It doesn't help that Target is being squeezed in apparel, which accounts for up to 25% of sales. Wal-Mart has improved the style and quality of its clothing, yet is still able to underprice Target. In the third quarter of 2002—

OFF-TARGET



the latest figures available—Target's market share in apparel dropped from 3.7% to 3.5%, while Wal-Mart's surged from 12.4% to 12.9%, according to market researcher NPD Fashionworld. And they aren't the only resurgent rival.

Department store Kohl's Corp. is expanding aggressively. Its market share in apparel surpassed that of Target in the third quarter of 2002, rising to 4.4%, up from 3%. That's why Target's failure to deliver on the promise of its hip marketing is such a big issue. Part of the challenge is the stores themselves, which resemble a typical discounter. "The cool factor disappears as soon as you walk in," says Kenneth H. Walker, head of the consulting firm Retail Options. The other trick is finding the right mix of merchandise to keep the hipsters and upscale buyers coming. Despite introducing a host of new designer wares, from youth-oriented clothes by Marc Ecko to home accessories from Todd Oldham in the last year, Target's sales growth stalled anyway. And that's the uncoolest cut of all.

By Robert Berner
in Chicago

MARKETING

WHAT'S MAKING TOYLAND BUZZ

Cheap chips yield junior versions of high-tech gizmos

Just two years ago, New York's annual Toy Fair was hit with an invasion of robots. Thanks to electronic components that had plunged both in size and price, every toymaker worth its action figure trotted out toys chock-full of electronic gizmos. Problem was, most of them didn't seem like much fun. Remember Meow-Chi and Tri-Rap-a-Ceratops? Well, not many kids do, either. Most fizzled, consigned to Toyland graveyards.

This time around, toymakers insist they're getting the hang of this technology thing. From talking dollhouses to plush toys that sing and dance, more than two-thirds of the roughly 5,000 new products being introduced at this year's annual toyfest incorporate a sensor or electronic chip, figures Frank Catalano, a Seattle-based toy consultant.

So why has the \$20.3 billion toy industry gone so gung ho for gadgets? Toy executives view gee-whiz electronics as the front line in their war against "age compression." That's industry-speak for the fact that today's kids outgrow toys at an ever-younger age. So for kids who watch their teen siblings yak on real cell phones, Hasbro Ltd.'s Tiger Electronics unit offers Thin-Tronix, a hot pink speaker-phone that hangs from a wall.

Cheap technology has resulted in a slew of toys that

ONE IF BY LAND...

With Tyco's Power Changers, kids can swap a motor from a toy car to a boat



allow kids to emulate pastimes like boom boting or music swapping.

Printing the electronics right on the plastic surface allows Tyco

'R' Us to offer a 13-inch inflatable radio called Airwavez. And Mattel created a music mixer, shaped like a cell phone, to go with its popular two-oriented My Scene fashion dolls. Girls can use the mixer to record their favorite tunes, then swap them with their friends' mixers.

Remote control is everywhere—making that radio-controlled truck of yesteryear look like a clunker. Mattel's Tiger R/C unit is pushing Power Changers' inch-long remote-controlled cars and boats with swappable engines. And for those old spinning tops? Hasbro's Beyblades battling tops can now launch by remote control.

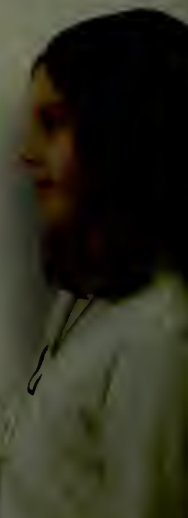
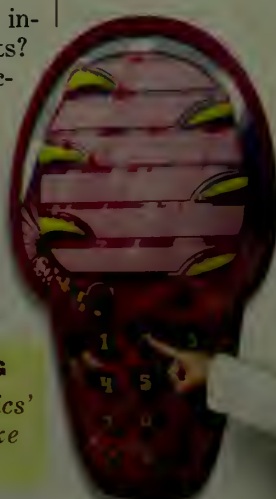
The hottest toy battle will likely be Mattel's Fisher-Price unit against Leap Frog Enterprises Inc., maker of the zling-hot LeapPad, a learning aid that emits sounds and music when kids touch a stylus to a picture or letter. Borrowing technology from notebook computer touchpads, Fisher-Price's new Power Touch Learning System does away with the stylus.

Fisher-Price hopes to snare three-year-olds before they pick up the LeapPad habit. It had better. The way kids are going today, five-year-olds may soon be downloading SpongeBob SquarePants movies to their lunchboxes. Sound fetched? Somewhere in Toyland, probably on a drawing board.

By Gerry Khermouch
in New York

GIVE ME A RING

Tiger Electronics' phone looks like a poster





One

company provides total document solutions for business



One company provides solutions for virtually every imaging need. Like network copiers that scan directly to email or fax. Document systems that enable you to create, store and print forms on demand. Color output for about the cost of black & white. Multi-function machines that output both color and black & white at speeds up to 30 pages per minute. And the ability to manage all connected printers and copiers from a single site. All with outstanding reliability. All from one company. Kyocera Mita.

To learn more, visit www.kyoceramita.com or call 1-800-222-6482.



total document solutions

KYOCERA MITA CORPORATION
www.kyoceramita.com

©2003 KYOCERA MITA CORPORATION

EDITED BY MONICA ROMAN

NASDAQ: MAROONED BY ARCHIPELAGO

WHEN NASDAQ SHARES FINALLY rebound from their depths, will the NASDAQ Stock Market rein supreme? The odds of that decreased somewhat on Feb. 12 when the Archipelago Exchange announced that it would quit routing trades to NASDAQ's system, which is known as SuperMontage.

Archipelago, one of the upstart electronic trading systems that have challenged NASDAQ, instead will match buyers and sellers on its own market, a supercharged cyberspace version of the former Pacific Stock Exchange. By the end of March, Archipelago says, its initiative will take 10% of SuperMontage's volume—and \$35 million in revenues from selling stock quotes to investors—away from NASDAQ. Officials at the older market, which hopes to issue an initial public offering later this year, say the

hit from Archipelago will be far less.

A REVIVAL FROM PHOENIX?

CAN HARRY POTTER REVIVE A struggling Scholastic? The New York publisher announced plans to boost the number of initial copies it will publish of J.K. Rowling's fifth Potter book (6.8 million, vs. 3.8 million for the fourth book's first printing) and says it will increase its marketing budget for the new book by 25%, to \$1 million. Promotions for *Harry Potter and the Order of the Phoenix*, due out in June, will include more advertising and contests. Scholastic can use the help: After it trimmed earnings projections on Feb. 11 because of lower book-club sales, shares plummeted 23%, to about \$26.

DEERE IS PULLING IN BUCKS AGAIN

MUCH OF THE FARM ECONOMY is still mired in recession. Luckily for Deere, it makes more than tractors and combines. Thanks to double-digit sales increases in bulldozers, backhoes, riding lawn mowers, and other nonagricultural equipment as dealers restocked inventories, Deere swung back into the black in its fiscal first quarter, ended Jan. 31. It posted a profit of \$68 million on sales of \$2.8 billion, handily beating forecasts. Still, the Moline (Ill.) manufacturer warned that the farm slump could continue for another year.

UNLIKELY ALLIES IN ASBESTOS

THE AMERICAN BAR ASSN. handed manufacturers a victory on Feb. 11 when it endorsed a plan to cut asbestos claims by weeding out plain-

HEADLINER: DOUGLAS DAFT

A QUENCHING QUARTER

After three tough years, Coca-Cola Chairman and CEO Douglas Daft may finally be starting to steer his Big Red ship out of troubled waters.

Thanks to revamped advertising campaigns and new products, Coke is again clicking with consumers.

The changes added some fizz to Coke's fourth-quarter numbers, released on Feb. 12. Sales jumped 13%, to \$4.8 billion, although earnings inched up just 1.8%, to \$930 million. Coke's acquisition of the Seagram line of mixers and its deal to distribute Evian water in the U.S. helped pump

up results. Better still, unit volume was up 6% overall riding the success of such Daft initiatives as Vanilla Coke and Dasani bottled water.

Still, to get earnings up, Daft's turnaround has a ways to go. He plans to integrate the company's North American bottle and can operations with fountain sales and Minute Maid juice. And Coke will take \$400 million in pretax charges to cover staff reductions. The cuts should shave \$100 million in costs annually by 2004—another step in the right direction for Coke.

Charles Hadden



CLOSING BELL

HAPPY ENDING

Wall Street has feared video rental giant Blockbuster is losing DVD business to discount retailers. But a \$30.7 million profit on revenues up 17% for the fourth quarter helped temper worries. The numbers fell shy of estimates but were strong enough to boost Blockbuster shares 10.3%, to \$14.50, on Feb. 11.



Data: Bloomberg Financial Markets

tiffs who aren't yet sick. The voice vote by the bar's policymaking body puts the 410,000-member group on the same side as Big Business, which it often opposes. The bar will join the National Association of Manufacturers and other groups to lobby for legislation that would set medical criteria for asbestos plaintiffs to meet before they can file a claim for nonmalignant illnesses. Many trial lawyers fought the vote, saying it would bar 90% of some 600,000 pending cases. Asbestos litigation has forced 60 companies into bankruptcy since 2000.

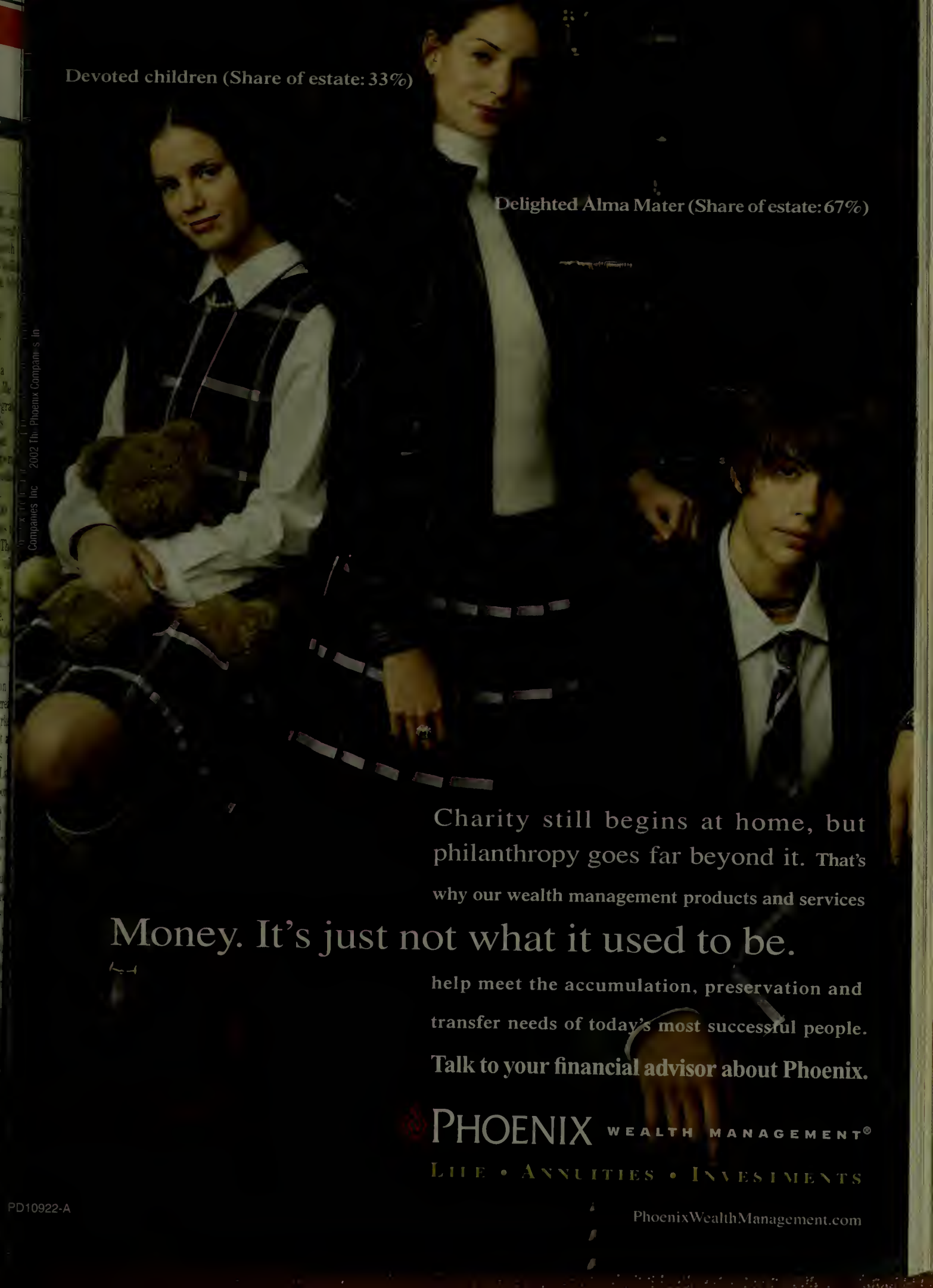
PUTTING THE SQUEEZE ON BRAZIL

THE BUSH ADMINISTRATION ON Feb. 11 stepped up pressure on Brazil to agree to a 34-nation hemispheric free trade zone by proposing to cut most U.S. tariffs on imports

from the entire region to zero. The deal would increase access to the U.S. market for sugar and citrus fruit and eliminate U.S. tariffs on clothing imports from Latin America by 2010. The poor nations of the Caribbean and Central America would get first dibs on a duty-free U.S. market as long as they reciprocated by dropping duties on U.S. exports. If Brazil drags its feet in the talks for a Free Trade Area of the Americas (FTAA), the Bush Administration will offer other nations separate free-trade deals.

ET CETERA...

- Citigroup CEO Sanford Weisberg said that he would not take a bonus for 2002.
- William Wise will step down as El Paso Corp. CEO.
- Johnson & Johnson will buy biotech player Scios for \$2.4 billion.



Devoted children (Share of estate: 33%)

Delighted Alma Mater (Share of estate: 67%)

Charity still begins at home, but philanthropy goes far beyond it. That's why our wealth management products and services

Money. It's just not what it used to be.

help meet the accumulation, preservation and transfer needs of today's most successful people.

Talk to your financial advisor about Phoenix.

 **PHOENIX** WEALTH MANAGEMENT®
LIFE • ANNUITIES • INVESTMENTS

PhoenixWealthManagement.com

We power hospitals, stadiums and the occasional late-night craving.

As our country's energy needs continue to outgrow its resources, Siemens is determined to give people everywhere the power to live, better. That's why we're constantly engineering ways to improve the efficiency of power generation technology and to increase the capacity of transmission and distribution systems. From generation to transmission, Siemens technology is responsible for producing over a third of the nation's electrical energy.

By pioneering cleaner and more efficient energy technologies, Siemens is helping to reshape and redefine the power industry. Whether it's energy, healthcare or communications, we have 425,000 minds working together all around the globe, including 75,000 right here in the U.S., creating innovative solutions. And that's what it takes to change the world.

A person in a dark jacket is seen from the side, looking out over a city skyline at night. The city lights are reflected in a body of water in the foreground. The person is holding a folder or a set of plans.

SIEMENS

Global network of innovation

EDITED BY PAULA DWYER

EXPENSING OPTIONS: THIS TIME, SILICON VALLEY CAN'T SHOUT DOWN FASB

Seven years ago, Corporate America went on the warpath over stock options. Spearheaded by the high-tech industry, business pressured Congress to block a proposed accounting rule that would have depressed profits by forcing the value of stock options to be subtracted from earnings. Ultimately, the group that sets U.S. accounting rules—the Financial Accounting Standards Board—was taking so much heat from the Hill that it abandoned the effort.

Now, after two years of stock option-induced corporate scandals that undermined investor confidence and helped knock the wind out of the stock market, FASB is poised to try again. Alarmed, the high-tech lobby is mounting another all-out push to kill any accounting rule that would require expensing. Déjà vu? Yes, but now Silicon Valley is likely to meet much stiffer resistance. Corporate and political climates have changed radically since 1993, and that makes it harder “to apply the kind of political pressure that was used against FASB” a decade ago, says Dennis R. Beresford, who chaired the board during its first options fight.

Although FASB has yet to circulate even a draft proposal, tech execs are gearing up. They and leaders at companies such as Staples and Herman Miller are deluging FASB with letters arguing that since options require no cash outlays, they shouldn't be counted as a cost on the

income statement. What's more, they say, existing methods of valuing options are faulty. The tech set is lining up allies on the Hill. Already, 40 lawmakers, led by California Representatives David Dreier (R) and Anna Eshoo (D), warned FASB in a Jan. 30 letter that treating options as an expense “results in the disclosure of inaccurate corporate financial information and a flawed picture of company performance.”

But this time, business can't present a unified front. Coca-Cola's decision last July to treat options as an expense set off

a stampede that has resulted in more than 170 companies pledging to adopt expensing voluntarily. Congress isn't speaking with one voice, either. Senator Joseph I. Lieberman (D-Conn.), who led the charge against FASB in 1993, is on the sidelines this time. Lieberman's absence robs the hands-off-out-options crowd of a high-profile political champion.

And unlike a decade ago, a counteroffensive is starting to build. Senators Carl Levin (D-Mich.) and John McCain (R-Ariz.), longtime advocates of expensing, on Feb. 3 sent a

letter, signed by 28 other lawmakers, urging FASB to follow through on its quest. The current treatment of options, says Levin, “undermines honest accounting by tempting executives to cook the books.”

With Congress in business-friendly Republican hands, the techies should be notching another victory. But the stream of corporate scandals has cast a harsh light on options, undermining Hill support—and strengthening FASB's hand. In 1993, companies threatened to cut off contributions to the board if it pursued its options-expensing crusade. Now the Sarbanes-Oxley Act of 2002 frees FASB from such worries by assessing mandatory fees on public companies. For now, the board's funding, which the SEC must approve before the money flows, is hung up in a power play as outgoing SEC Chairman Harvey L. Pitt tries to assert new

authority over the board (below). With Pitt's departure, FASB should soon have the SEC's approval to start levying fees.

Even if FASB endorses expensing, a move that is expected by the end of March, questions over how to value options could delay any rulemaking for months. Still, the battle lines have shifted since FASB's initial try. Silicon Valley may want to fight the last war, but unless it absorbs the lessons of the past two years, it's going to find itself outmaneuvered.

By Amy Borrus



LEVIN: Backs expensing

CAPITAL WRAPUP

PITT'S LAST LICKS

► Harvey L. Pitt may be down to his final days at the SEC, but he's still trying to throw his weight around. Pitt wants greater SEC control over the Financial Accounting Standards Board, the independent body that writes corporate accounting rules. But all he's achieving is a financial crunch.

During a yearlong battle, Pitt has insisted upon an SEC seat on the seven-member board, a veto over FASB membership, and control of its agenda, say SEC and accounting sources. He has

softened those demands but still wants more SEC oversight than ever. Pitt's spokeswoman declined to comment.

The power grab would reverse what had been a trend toward greater FASB independence. In last year's Sarbanes-Oxley corporate reform act, Congress gave FASB official status and an independent funding stream through levies on publicly traded companies.

But FASB can't collect those fees until the SEC approves FASB's budget, and that gives Pitt leverage. The two sides were near agreement in January, but Pitt grew angry when FASB contacted

other SEC commissioners, rather than dealing solely with him, accounting sources say. He then ordered his staff to draw up the policy statement for the five-member SEC to approve.

Pitt's crusade has little support at the SEC. And the Senate is on the verge of confirming William H. Donaldson as chairman, ending Pitt's lame-duck reign. But the standoff is forcing FASB to run down its reserve funds. “You're looking at early summer before [FASB] can get its revenue stream going,” says an accounting source.

By Mike McNamee

SOUTH KOREA

KOREA'S YOUNG LIONS

They're rising to power—and shaking up the nation

On Feb. 25, South Korea will get a new President, human rights lawyer Roh Moo Hyun. His is an astonishing tale: A peasant's son, Roh skipped college, worked on construction sites, taught himself law, then passed Korea's grueling bar exam. He then defended those who dared to stand up to the old military regime.

Admirable as he is, Roh's presidential abilities are untested. His only administrative credential is a seven-month stint as Maritime Minister. He speaks little English and has seldom traveled overseas. Not much experience for the man who faces Asia's murkiest foreign policy quagmire, the nuclear crisis brought on by North Korea and its mercurial leader, Kim Jong Il. Complicating Roh's efforts to resolve the situation will be his base of support. He rode into office on the wings of a new generation of Koreans, many of them former student radicals, who are less willing to follow Washington's lead than are their elders. Roh desperately wants a peaceful solution to this crisis. Finding one will involve a delicate balancing act between his U.S. allies and these young supporters, whose own rise to prominence forms the fascinating tale that follows.

Late January in Seoul. The city is in a deep freeze, and a cold wind whips through the narrow streets near the old royal compound of Biwon. But duck into the headquarters of People's Solidarity for Participatory

Democracy, and you'll find the temperature rising. Dozens of young volunteers sit at computers and work the phones, ferreting out corporate misdeeds, abuses by U.S. soldiers, and corruption among politicians. Fabled American activist Ralph Nader would feel right at home.

But even after four decades on the U.S. scene, Nader and his followers have never scored the kind of coup these young Koreans pulled off in December. This group and a handful of others like it were critical in helping elect Roh Moo Hyun in one of Asia's biggest electoral upsets ever. By rallying massive, last-minute support from voters under 40, these activists snatched victory from conservative Lee Hoi Chang and set the stage for a dramatic generational shift in Korean politics and society—a shift

that could well accelerate after Roh takes office. "This election is the repudiation of the old order, the old political system, the old leadership," says Kim Ki Shik, 36, leader of People's Solidarity.

Kim and his associates are at the core of what the Korean press has dubbed the "386" generation. Sound like a computer chip? It's actually clever shorthand for this group. The 3 stands for their age—these people are still in their late 30s (or, at most, early 40s)—absurdly young in a Confucian society to be reaching for power and influence. The 8 is for the 1980s, the tumultuous period when they attended university and the country shifted from dictatorship to democracy. And the 6 is for the 1960s, when they were born—the era when their parents were toiling ceaselessly to industrialize their war-shattered nation. "The 386 generation is the core force for change," says Roh.

These Roh backers are the ones who faced down Korea's military rulers, did hard time in prison for student and labor activism, and fought deep-seated corruption in the country's executive suites and government offices. They're at the vanguard of the country's surprising surge of anti-Americanism, and they insist on a new tone of tolerance in the debate on North Korea. And they have created the most energetic corpo-



TWO SIDES AT THE DMZ

So far, Roh isn't threatening tough action against the North

VICTORY DANCE
Many young Koreans like Roh's independent stance toward the U.S.



AGENDA The young are much less worried about the North than are their elders, and they're eager to change the South's culture of graft

te governance movement in Asia. The cohort is ready to shake things even further now that their man is in power. Although Roh himself is 56 and his chosen Prime Minister is 65, the 386ers will make up the backbone of the new administration. A dozen have slots on Roh's transition team and are likely to land important ministry jobs. Examples: Park Joo Hyun, a 39-year-old lawyer, is one of five senior secretaries to the President-elect. Song Kyung Hee, a 42-year-old administrator at state-run KBS TV network, was named as Roh's presidential spokeswoman. And 31-year-old Lee Kwang Jae is expected to be appointed secretary for information and policy monitoring. A tough, resourceful bunch—but a group that has known only the thrill of competition and none of the burdens of power. It's unclear yet whether these comparative youngsters can handle the situation they find themselves in. Rooting

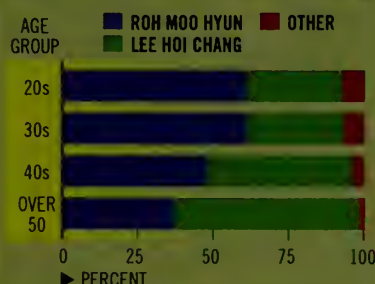
out corruption? Staggeringly difficult in Korea, where the connections between the big conglomerates, or *chaebol*, and the political class run deep. Even the followers of Kim Dae Jung—the outgoing, reformist President—succumbed to the temptations of graft. And what about the biggest problem of all, ending the threat from North Korea? No one—in Seoul, Beijing, Tokyo, or Washington—has figured that out. The 386ers want dialogue with Pyongyang. They may well get strife instead.

The new leaders are, however, more than willing to tackle these problems. Highly educated, computer-savvy, and far more entrepreneurial than their elders, they've been instrumental in

building one of the world's most successful economies over the past decade. The first to earn the sobriquet 386, in fact, were the entrepreneurs who launched a wave of high-tech startups in the late 1990s, helping make Korea one of the world's most wired countries.

Perhaps nothing better illustrates the resourcefulness of this generation than the way its members helped Roh pull off his victory. When word spread that Lee Hoi Chang was winning, activists—mostly from a group called *Rohsamo*, or the “Love Roh Club”—organized an Internet-driven get-out-the-vote drive on Election Day. The result was astounding. “Without this massive wave of young people going on

ROH'S YOUTH APPEAL



the Net, there is no way Roh Moo Hyun could have become President," says David Richardson, country manager for poll taker Taylor Nelson Sofres Korea.

The panache and media skills of the 386ers even succeeded in turning Roh—a dedicated but buttoned-down fellow who lacks the polish of his younger followers—into a hot political commodity. While Roh's campaign rocked to the pulsating beat of 31-year-old Yoon Do Hyun, whose World Cup theme song epitomized the self-confidence of the younger generation, the rallies of 67-year-old Lee Hoi Chang featured sleepy fox-trots and folk tunes. "The existing political order simply could not keep up with the new, dynamic Korea," says 38-year-old An Hee Jeong, a key campaign strategist for Roh

and now vice-president of the think tank of Roh's Millennium Democratic Party. Koreans under 40 voted for Roh by a margin of almost 2 to 1, while those over 50 preferred Lee by 61% to 37%.

The stark generational split in Roh's support will likely change the way Korea's government views the outside world. The 386ers see themselves as an integral part of a rising Asia, and many feel Korea should seek closer cooperation with neighboring China and Japan and loosen ties with the West. In fact, South Korea's new leaders have made it clear they're not willing to follow the dictates of the U.S. in their policies toward their belligerent, impoverished neighbor to the north. Many see the conspicuous U.S. military presence as a sym-

bol of the past—a past when their country was poor, dependent, a pawn in great power politics. "North Korea would have resorted to its dangerous game had the U.S. refrained from pushing it into a corner," says Kim Sok Yeon, a 30-year-old attorney working for People's Solidarity.

The 386ers in Roh's administration want to throw out that baggage and start anew. The seminal event of their parents' lives was the Korean War. For the 386ers, the defining moment was the Kwangju Massacre in May, 1980, when South Korean troops stormed the southern western city of Kwangju to put down a 10-day revolt by everyone from housewives to students. At least 193 people died. Since the U.S. had operational c

'I WANT A NEW CULTURE TO TAKE ROOT'

South Korean President-elect Roh Moo Hyun agreed to answer written questions submitted by Seoul Bureau Chief Moon Ihlwan. Excerpts:

There are concerns in the U.S. that you will oppose any military action or isolation of North Korea even if Pyongyang presses ahead with its nuclear program. Will you?

I have put forward three principles to resolve the North Korea question. First, no nuclear weapons will be tolerated in North Korea. Second, the matter should be resolved peacefully. Third, South Korea, the U.S., and Japan will closely consult over the matter, and we South Koreans will play an active role. Our government will not mediate between North Korea and the U.S., but will stand alongside the U.S. in trying to find a peaceful solution. We want to play a role.

What do you think should change in Korea-U.S. ties?

Our alliance with the U.S. is the cornerstone of our security, and U.S. troops stationed in South Korea are its basis. But many Korean youths born after the war maintain that Korea-U.S. ties are not equal and that Korean pride and respect are not properly upheld. I'll try to strengthen our solid alliance—and create a partnership on an equal footing.

To win, you relied heavily on the younger generation. Do you believe in their ability to run the country?



“No nuclear weapons will be tolerated.... The matter should be resolved peacefully”

— ROH MOO HYUN

My relationship with the younger generation began in 1981 when I defunded students charged with sedition. I was with them where tear gas shells rained, talking through the night, defying the threats of the military dictatorship. But my personal experiences and state affairs are two different matters. The role of those from the younger generation will be limited to that of advisers, as it has been so far.

You say you're pro-business but against *chaebol* abuses. What must change?

There are certainly areas requiring improvement in corporate governance. Among new measures to be introduced are class actions to control dishonesty in accounting and disclosure. I also plan to maintain a cap on cross-shareholdings among affiliated companies in the *chaebol*. Audits must also be carried out in a more neutral and transparent manner.

What changes do you want to see by the end of your five-year term?

I want a new culture to take root so that democratic principles and trust are firmly restored. I would like to see a transparent and fair economy where growth and distribution [of wealth] are balanced. We also have the task of preparing a new, peaceful, and prosperous era in northeast Asia. There is one necessary condition to achieve these goals: Bring peace to the Korean peninsula. In that regard, the North Korean nuclear problem must be resolved peacefully.

ol over South Korean
ces at the time, dissidents
arged that Washington
uld have stopped army
ongman Chun Doo Hwan
m sending in the troops.
e U.S. disputes this, but
legal niceties are of little
erest to activists, who
ade sure that incoming
iversity students learned
out the atrocities.

Many, sheltered by a cen-
tered press and govern-
ment-issue textbooks, had
ever heard about the incident—and
were radicalized when they did. "The
Kwangju Massacre brought the 386 gen-
eration together," says Chun Ho Sun,
head of Roh's Internet strategy during
campaign and now a member of the
residential transition team. The move-
ment started by Kwangju culminated in
tionwide pro-democracy protests in
87, ending military rule. The next year,
h won a National Assembly seat with
e help of young activists.

The gap between the Kwangju gener-
on and its elders is evident in their di-
rgent attitudes toward the North.
early 60% of Koreans under 40 think
e Korean War was touched off by
ast-West politics and was essentially a
oxy conflict between the superpowers,
ording to a Gallup survey in late De-
mber. Some 43% of Koreans over 50,
contrast, say it was a wanton invasion
North Korea. "The communists killed
r brothers and parents," says Han Se-
g Hee, 66, a retired phone engineer.
was so angry over recent anti-Amer-
n protests that he brought his 9-year-
l granddaughter to the Korean War
emorial in Seoul to teach her how more
an 33,000 U.S. soldiers died saving
uth Korea.

North Korea has none of this dread
nificance for the 386ers. Sure, when
ey were children, their classes were
errupted by sirens announcing air raid
ills, and they were hustled into pro-
tected basements. But as the South has
omed, North Korea has collapsed into a
gue state where hundreds of thousands
urve and about the only things the
untry can profitably produce are illicit
ugs, missiles, and bombs.

Those bombs, young Koreans believe,
e unlikely to rain down on Seoul. Only
% of those under 40 think the North
ould target the South, according to
llup, while nearly 40% of Koreans over
say an attack is possible. Even as
orth Korean leader Kim Jong Il ma-
uvers to build more nukes, most 386ers
upport engagement with the North, the
unshine policy" of Kim Dae Jung. "The
sis should be resolved through dia-
gue and persuasion rather than isola-



FACES OF THE DEAD

The 1980 Kwangju
massacre shaped the
new generation's views

bol, whose tentacles once
wrapped around virtually
every aspect of Korean eco-
nomic and business life.
Kim Dae Jung's regime at-
tacked many of the biggest
chaebol, but abuses contin-
ue. To further rein them in,
Roh is proposing higher

tion and pressure," says Lee Eun Hi, a
38-year-old former student leader who
served three months in jail in 1988 for
arranging a photo exhibit about North
Korean women. She now serves as an
aide to Roh's wife.

Subduing the North is just not at the
top of the 386ers' agenda. "We want to
end the old political order characterized
by corruption, close political-business ties,
and authoritarianism," says Suh Gab
Won, the 40-year-old chief of protocol for
Roh's transition team. Thus the young
leaders are determined foes of the *chae-*

taxes on inheritances to contain the pow-
er of the business dynasties, and tighter
restrictions on cross-shareholding among
chaebol affiliates.

To get an idea of the kind of politician
the 386ers are relying on to effect these
changes, stop by the National Assembly
office of 36-year-old Im Jong Seok. Pre-
vious generations of pols spent years
slavishly currying favor with party boss-
es before they got their seats. Im fol-
lowed a far more tortuous path to parli-
ament, where he has served as a deputy
in Roh's Millennium Democratic Party
for two years. As a student activist in
the late 1980s, he spent 3½ years in jail
for masterminding a student's clandes-
tine trip to North Korea. Later, he
helped peasants harvest crops and head-
ed a group that trained young people to

use computers. Unlike
many of his
elders, Im
says his pri-
mary goals
are to
stamp out
political cor-
ruption and
give parlia-
ment a more

**“The crisis should
be resolved through
dialogue and persua-
sion rather than isola-
tion and pressure.”**

— LEE EUN NI,

Aide to the President-elect's wife



SUH (L) IS CHIEF OF PROTOCOL
FOR THE TRANSITION TEAM,
LEE (C) IS AN AIDE TO ROH'S
WIFE, AND CHUN (R) DIRECTED
ROH'S INTERNET STRATEGY

active policy-making role. "Whether in politics or the economy, transparency and fair play will be the name of the game," says Im.

Just as Im and other young Koreans are trying to achieve a revolution in politics, other 386ers are trying to transform the business climate. The Asian crisis reordered the priorities of Korea's banks, freeing up billions of dollars in capital that in years' past might have been funneled to the *chaebol*. But the banks were only one strand in the web of power the *chaebol* spun. Other practices, such as interlocking shareholdings and insider deals that transfer profits to family-controlled companies and losses to publicly listed ones, continue to shore up their influence.

Activists such as Kim Joo Young are hot on their trail. The 37-year-old helped draft pioneering legislation that would allow shareholder class actions, something Roh pledges to push through the National Assembly. Kim has already filed scores of suits on behalf of investors and recently won \$1.8 million in damages against Samsung Investment Trust Management Co. and other companies that manipulated shares of Inzi Display Co., a maker of components for flat-panel screens. Now, Kim heads the Center for Good Corporate Governance, which aims to boost minority shareholder rights. "All the problems lie in the power of the controlling shareholders," says Kim. His group has a contract to provide consulting services for a \$300 million investment fund, backed by the World

“All the problems lie in the power of the controlling shareholders” —KIM JOO YOUNG, Cen-

ter for Good Corporate Governance



Bank's International Finance Corp. and Deutsche Bank, which will invest in Korean enterprises that meet its tough corporate governance standards.

As they move into power, the tech smarts of this crowd will remain crucial in furthering its goals. The older generation typically gets its news from a troika of staid newspapers that have long ruled the media scene. Some 80% of 386ers, by contrast, own mobile phones that can access the Web, and nearly all have high-speed Net links at home, letting them turn to the Web

for their political and economic fix.

Even with their digital chops, the new leaders will face an uphill battle to do away with political corruption even inside Roh's party. Notwithstanding Kim D. Jung's Nobel Peace Prize credentials as a pro-democracy campaigner, he ran his political party like a medieval fiefdom. He and his top aides often chose the party's legislative candidates, just like the military dictators before them. Prior to the 2000 election, politicians in both parties often paid to be candidates.

Roh has to dismantle this system. More important, he has to harness the power of his supporters to win another key goal—a majority in the National Assembly, which eluded the Millennium Democrats in elections three years ago. A clear victory for Roh and his followers in next year's contest would signal that the 386ers have staying

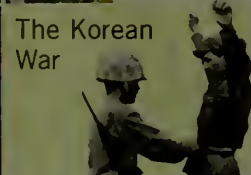
power. Roh himself says that unless he secures a parliamentary majority, he could end up being reduced to a "half President."

Whatever happens, time is on the younger generation's side: The old order has been warned. "This generation doesn't like authority," says student radical-turned-lawmaker Im Jeon Seok. Increasingly, however, this generation is the authority. Korea may never be the same.

By Moon Ihlwan and Mark L. Clifford in Seoul

KOREA'S NEW POWER GENERATION

Korea is changing as men and women who are in their 30s, attended college in the 1980s, and were born in the 1960s—the so-called 386 generation—rise to positions of power.

SEMINAL EVENT OF FORMATIVE YEARS	RELATIONS WITH THE U.S.	VIEWS ON NORTH KOREA	ECONOMIC DEVELOPMENT PLAN	POLITICAL SYSTEM
 The Kwangju Massacre	Greater autonomy from the U.S. and equal partnership in alliance	Partner that needs help from the South to break its isolation	Promote startups and risk-taking entrepreneurship, with focus on profits	Grass-roots-based party system accommodating a variety of voices
 The Korean War	Dependence on U.S. security umbrella and acceptance of U.S. as the top global cop	Communist rogue that has to be contained with constant pressure	Favor <i>chaebol</i> and controlled markets, with focus on size and revenues	Boss-dominated politics based on regional loyalty and political donations by the <i>chaebol</i>

The best financial advice is built through seasoned experience.

Alan Jusko Prudential Senior Vice President - Investments
33 years' experience
Specialties: Wealth management, estate and financial planning

Paul Bronzo
Prudential Senior Vice President - Investments
19 years' experience
Specialties: Wealth management, asset protection and succession planning

Lawrence Durso
Prudential Senior Vice President - Investments
24 years' experience
Specialty: Retirement planning

Helen Rothlein, CIMA
Prudential First Vice President - Investments
22 years' experience
Specialties: Asset allocation strategies, financial planning

Sandra Constantine, CIMA
Prudential Senior Vice President - Investments
17 years' experience
Senior Investment Management Consultant

Anthony Sacco, CFP
Prudential Senior Vice President - Investments
29 years' experience
Specialties: Wealth management, retirement planning, estate planning

Dr. Edward Yardeni
Prudential Chief Investment Strategist
25 years in the business
Specialties: Economics, portfolio theory

Steven M. Samuels, MBA
Prudential Branch Manager
First Vice President
17 years' experience

An investment approach refined over time: growing and protecting your wealth.

At Prudential Financial, we've been studying the financial markets for more than 125 years. With our rich experience as both an asset manager and an insurance company, we're uniquely qualified to help you keep your wealth growing, and keep it protected.

With so much uncertainty in the market, you need the steady hand of an experienced advisor—someone who's seen a fair share of bulls and bears. Chances are, you can find one at a Prudential Financial office right around the corner. Call today to arrange a complete portfolio analysis and learn how you can grow and protect your wealth through all kinds of markets.

How can you stay on track in a market like this? A portfolio review can provide answers. A seasoned Prudential Financial professional has the insight you need. Together, you'll develop a firm understanding of what's driving today's market and take steps to properly position your portfolio:

- Find opportunities to better manage risk
- Identify when it may be wise to take losses
- Create a tax reduction strategy
- Optimize your asset allocation
- Prepare for a market recovery

It's not just the advisor, it's the experts who stand behind them. Your highly skilled Prudential Financial advisor is supported by some of the industry's most noted financial experts. Renowned investment strategist Edward Yardeni. Technical analyst Ralph Acampora. And one of Wall Street's most honored investment research teams.

Expertise in the areas that matter most to you. With years of training and hands-on experience, Prudential Financial advisors have developed highly specialized skills to help you plan for life's big challenges. Our financial advisors can work with your legal and tax professionals to help you in setting up a small business, passing on an estate, or building a college fund.

Retirement, College Funding, Estate Protection, Small Business Planning, Tax Strategy

Call today for a free portfolio review. Let a Prudential Financial professional help you analyze your financial situation and identify areas where you should be making changes now.

**1-800-THE-ROCK ext. 3407
prudential.com**

Prudential Financial

Growing and Protecting Your Wealth®

©1/03 Securities products and services are offered through Prudential Securities, member SIPC, a Prudential Financial company. Neither Prudential nor any of its companies are legal or tax advisors. Prudential Financial is a service mark of The Prudential Insurance Company of America, Newark, NJ and its affiliates.



OIL

PUMPING UP BP

Its Russia deal gives it clout—and binds Moscow to the West

It's a major oil deal, a masterstroke for Vladimir V. Putin, a warning shot to OPEC, and a coup for John Browne, the restless chief of Anglo-American energy giant BP. The Feb. 11 announcement that BP PLC would pony up \$7.1 billion in cash, stock, and assets for a 50% stake in what will be Russia's third-largest oil company could even shake up the industry as much as Browne's 1998 acquisition of Amoco.

The BP agreement with the owners of Tyumen Oil Co. boosts the London-based company's oil reserves by a third. But the agreement has significance far beyond the oil patch. Energy is the most political of businesses, and this deal is clearly a bargain struck between Russia and Britain, America's closest ally. As such, it is a reward for Britain's Prime Minister Tony Blair, who was quick to embrace Russian President Putin after the former KGB boss took power in 2000. Having such a marquee Western name as BP link its future to Russia is clearly a

TNK OIL FIELD

For the West, new alternatives to OPEC

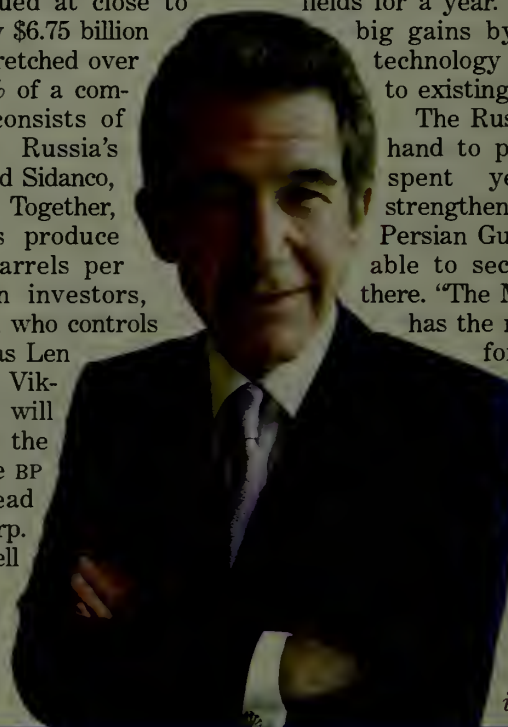
boon to Putin, who considers Russian energy companies key levers of his foreign policy. Putin is also signaling that Russia is welding itself more firmly than ever to the West. With tensions increasing over Iraq, BP's move clearly fits well with the West's strategic

goal of developing Russia as an alternative source of crude to OPEC and its Persian Gulf kingpins.

Of course, Russia hasn't exactly been a cakewalk for investors—indeed, BP itself has been badly burned in the past. But Browne is confident he made the right call. "Russia is the world's largest oil and gas producer," he says. "There are sizable resources yet to be found, and it is uniquely accessible to us."

BP will contribute most of its existing Russian assets, valued at close to \$900 million, and pay \$6.75 billion in cash and stock, stretched over three years, for 50% of a company that mainly consists of TNK (Tyumen Oil), Russia's No. 5 oil producer, and Sidanco, which ranks seventh. Together, the two companies produce about 1.2 million barrels per day. Three Russian investors, Mikhail Fridman, 38, who controls 50% of TNK, as well as Len Blavatnick, 45, and Viktor Vekselberg, 45, will realize big gains. If the deal flies, it will give BP a Russian beachhead that ExxonMobil Corp. and Royal/Dutch Shell

CEO BROWNE
Shaking up the industry again



Group will find hard to match. "T puts pressure on all the other companies," says J.J. Traynor, an analyst Deutsche Bank in London.

Ironically, Browne was nearly snored out of Russia in the late 1990s the same barons whom he now embraces. Back in 1997, BP purchased 10% share in Sidanco for \$484 million. But in a hardball application of Russia's laws that spooked foreign investors, Tyumen's owners elbowed BP aside and won control of one of Sidanco's prime fields. The nasty dispute wasn't settled until 2001, when Tyumen's owners turned the field to Sidanco. The Russians took a majority stake in Sidanco while BP upped its share to 25% and won management control. Gradually and surprisingly—the enemies turned into partners, even allies.

This "bloody nose" was a key learning experience, says Browne, who praises the strides Russia has made in bettering its business climate. Fridman counters that the environment is not "dramatically different" from the robber baron days. What clinched the deal is "a kind of trust between the partners," he says. Trust, but verify. The teams have been poring over TNK books and examining the company's fields for a year. Browne hopes for big gains by bringing better technology and management to existing fields.

The Russians have a good hand to play. While BP has spent years trying to strengthen its position in the Persian Gulf, it has been unable to secure major assets there. "The Middle East clearly has the right opportunities for someone," says Browne. "But it may not be Western oil and gas company. In contrast, cooperation with the perilous Russians is welcoming indeed."

By Stanley Reed in London and Paul Starobin in Moscow

BP's Russian Spoils

What the Anglo-American oil company stands to gain in exchange for its \$7.1 billion investment

▶ A 50% stake in what will be Russia's No. 3 oil company

▶ A 30% increase in proven oil reserves

▶ A 12% boost in annual production

▶ \$7.5 billion in potential upside from cost-cutting, production increases, better domestic pricing

Data: BP PLC

ROSE BRADY

WHY BUSH, BLAIR & CO. WON'T GO IT ALONE ON IRAQ—JUST YET

The heated transatlantic argument over how to disarm Saddam Hussein's Iraq is approaching a climax. After Chief U.N. Weapons Inspector Hans Blix briefs the U.N. Security Council on Feb. 14 on Iraq's cooperation—or lack thereof—the squabbling council members will have to settle down and decide what to do. The options range from giving weapons inspectors substantially more time and resources, the French, Germans, Russians, and Chinese are demanding, to a unilateral U.S. declaration that Iraq is in "further material breach" of Security Council resolutions. That would be the trigger for a Washington-led attack on Baghdad soon. In between these positions, however, remains the last diplomatic move that the Bush Administration still would like to pull off: a new Security Council resolution effectively authorizing the use of force against Saddam. Britain, America's leading ally in the debate over Iraq, would likely propose the resolution, which would build on the toughly worded document passed by the Council in November, known as 1441. That required Iraq to cooperate in eliminating weapons of mass destruction or "face serious consequences." Both Britain and the U.S. would then wage the intense diplomacy necessary to gain backing for the resolution. "We will push very hard if we think it's a winnable objective. A second resolution could be very useful, especially if it yields an international coalition," says an Administration official. Nine of the Security Council members would have to approve, with no vetoes from the three "permanent five" members currently opposing the war: France, China, and Russia. It would be an uphill fight. But there are numerous reasons why the Administration thinks one more diplomatic push for U.N. backing for war is worth it. Apart from the political cover it would give President Bush, a new resolution would help British Prime Minister Tony Blair and Australian

Prime Minister John Howard combat domestic critics of war. A resolution "goes to bolster world opinion and most importantly helps shore up Middle Eastern and Arab support," says Isobel Coleman, senior fellow for U.S. foreign policy at the Council on Foreign Relations in New York.

Less discussed, but no less important, are the "day after" issues, which could be easier to tackle if the U.S. has the backing of a resolution. These could include everything from peacekeeping to dealing with up to \$60 billion in Iraqi foreign debt. "The prospects of success in terms of a more secure region are greater, and the risks are diminished, if there is broad support," says Samuel R. Berger, National Security Adviser in the Clinton Administration.

The diplomatic dance is likely to play out by March. That's about as long as the Administration is expected to give Saddam to act on his very last chance to disarm—and the Security Council to agree to a new resolution. The U.S.'s backers in the diplomatic corps think that may be enough time to swing France, Russia, and other key opponents on the Security Council—or at least to get them to abstain on a vote, especially if Saddam is still stalling the inspectors.

If not, barring a sudden change of heart by Saddam or a coup against him, the U.S. and Britain will then lead its "coalition of the willing," with or without a new U.N. resolution. That may leave the Security Council wondering what role it has left to play.

With Stan Crock in Washington and Pete Engardio in New York



THE U.N.: Showdown time

BusinessWeek online

For a Q&A with Samuel R. Berger, go to the Feb. 24 issue online at www.businessweek.com.

GLOBAL WRAPUP

CRACKDOWN IN COLOMBIA?

Colombians expect President Alvaro Uribe to crack down on rebel groups in the aftermath of a recent bombing of a social club in Bogotá, which killed 2 and injured 170. The country's largest rebel group, the Revolutionary Armed Forces of Colombia (FARC), is suspected to have been behind the bombing. Uribe, who enjoys a popularity rating above 60%, was elected last year on a law-and-order platform. In keeping with that image, the president on Feb. 12 rejected a FARC

proposal that the government set up a demilitarized zone as a precursor to peace talks. Instead, analysts expect Uribe to rely on Colombian troops, some of whom are now receiving counter-insurgency training by U.S. special forces, to combat the insurgents. The U.S. is spending \$470 million a year to aid Colombia in its 39-year battle against rebel groups.

LONDON DRIVERS BEWARE

► Mayor Ken Livingstone will impose an \$8 "congestion charge" on drivers in the center of his crowded city, start-

ing on Feb. 17. Livingstone hopes the new scheme will slash traffic by as much as 20% and raise an estimated \$210 million a year. He plans to use the funds to improve London's creaky public transportation system—a move he hopes will help him win reelection next year.

But the gamble may backfire. Many drivers oppose the charges, which will be mandatory in central London on weekdays from 7 a.m. to 6:30 p.m. Hidden cameras will record vehicle numbers. And steep fines will be charged to cheaters.



THE MORE YOU LOOK, THE WEAKER EARNINGS LOOK

Last year's modest rise over a catastrophic 2001 may well be repeated this year

In an ordinary year, the surge in corporate profits in 2002 would be drawing huzzahs from economists and investors alike. Take away AOL Time Warner Inc.'s \$44.6 billion loss, which was so huge that it skewed results for the entire sample, and full-

year earnings for the 900 companies in *BusinessWeek's* Corporate Scoreboard zoomed 23%. That's the best result since 1994, when profits jumped 40% as the country climbed out of another slump.

If only it were so simple. In fact, last year's earnings picture was much weak-

er than it appeared. Include AOL's loss in the 2002 Scoreboard total and the profit increase for all industries drops from 23% to only 7%. And overall 2002 profits were still 50% below their peak in 2000. Big jumps often were achieved by easy comparisons with 2001, which

The Leaders in 2002 Sales and Profits

THE TOP 25 IN SALES

		2002 SALES IN MILLIONS	PERCENT CHANGE FROM 2001	2001 RANK
1	WAL-MART STORES	237,661	13	1
2	EXXON MOBIL	204,506	-4	2
3	GENERAL MOTORS	186,763	5	3
4	FORO MOTOR	162,586	1	4
5	GENERAL ELECTRIC	130,685	4	5
6	CITIGROUP	92,556	-7	6
7	CHEVRONTXACO	91,685	-6	7
8	IBM	81,186	-2	8
9	VERIZON COMMUNICATIONS	67,625	1	10
10	ALTRIA GROUP	62,182	-2	9
11	HOME DEPOT	58,522	16	19
12	HEWLETT-PACKARD	56,588	25	25
13	McKESSON	55,226	14	22
14	BOEING	54,069	-7	13
15	CAROLINA HEALTH	53,447	7	21
16	FANNIE MAE	52,901	4	NR
17	MERCK	51,790	9	23
18	KROGER	51,419	1	18
19	CONOCOPHILLIPS	50,512	125	NR
20	AMERISOURCEBERGEN	46,601	95	69
21	BANK OF AMERICA	45,732	-13	16
22	J.P. MORGAN CHASE	43,372	-14	20
23	SBC COMMUNICATIONS	43,138	-6	24
24	TARGET	43,076	11	32
25	PROCTER & GAMBLE	41,870	7	31

THE TOP 25 IN EARNINGS

		2002 PROFITS IN MILLIONS	PERCENT CHANGE FROM 2001	2001 RANK
1	GENERAL ELECTRIC	15,133	7	3
2	CITIGROUP	13,448	2	2
3	ALTRIA GROUP	11,102	30	4
4	EXXON MOBIL	11,011	-27	1
5	MICROSOFT	9,541	57	11
6	BANK OF AMERICA	9,249	36	9
7	PFIZER	9,181	22	5
8	WAL-MART STORES	7,698	19	10
9	SBC COMMUNICATIONS	7,473	6	8
10	MERCK	7,150	-2	7
11	JOHNSON & JOHNSON	6,651	17	12
12	FREDDIE MAC	5,764	39	NR
13	WELLS FARGO	5,710	67	19
14	IBM	5,334	-35	6
15	PROCTER & GAMBLE	4,907	65	20
16	FANNIE MAE	4,619	-19	NR
17	VERIZON COMMUNICATIONS	4,584	677	130
18	WYETH	4,447	95	32
19	WASHINGTON MUTUAL	3,896	25	24
20	HOME DEPOT	3,688	32	23
21	WACHOVIA	3,579	121	45
22	KRAFT FOODS	3,394	80	37
23	U.S. BANCORP	3,326	95	39
24	PEPSICO	3,313	24	26
25	BANK ONE	3,295	23	25

Data: Standard & Poor's COMPUSTAT



Overall profits fell an astounding 59% as companies wrote off billions in goodwill to reflect the stock market's tumble and changed accounting rules. Only easy financing buoyed spending on new cars and homes last year. And companies that did manage to boost profits rarely did so by revving up sales or raising prices, instead resorting to cost-cutting. It looks as if 2003 will be another year of treading water. Already, 273 companies have trimmed their first-quarter earnings estimates, up from 212 this point last year, according to Thomson First Call. While some CEOs are holding out hope for a late-year rebound, they may be disappointed. General Electric Co., the company generating the most profits last year, managed to squeeze out a 7% increase, to \$15.1 billion. But CEO Jeffrey R. Immelt says this year's earnings per share could come in at anywhere from a healthy 10% rise to an anemic 3% gain.

GE is actually in better shape than most. Few companies enjoy any pricing power, reflected in the weak 3% price increase for the Scoreboard last year. A rebound in demand is unlikely in 2003, given the threats to the economy, from rising energy prices and health-care costs to heightened international tensions. Gross domestic product is expected to grow a modest 2.7% this year, according to a February survey by Blue Chip Economic Indicators. *BusinessWeek* economists expect profits in the broader economy, including private companies, to improve 10%—a far cry from the 15% to 25% jump usually expected coming out of a recession. Says PNC Financial Services Group Inc. Chief Economist Stuart G. Hoffman: "We haven't seen [a rise like that] in 2001 or 2002, and I don't see it in 2003."

Still, give credit where credit is due—of 57 industries turned in profit gains in the year. (There are many ways to calculate profits. *BusinessWeek* uses income from continuing operations before

extraordinary items, as defined by generally accepted accounting principles, or GAAP.) Auto makers made the biggest U-turn, boosting sales 4%, thanks to 0% financing and other incentives. General Motors Corp. rang up \$1 billion in fourth-quarter profits alone—almost quadruple what it made in the fourth quarter of 2001. For the year, GM's profits rose 189%, to \$1.7 billion—90% of it from sport-utility vehicles and pickup trucks. GM used aggressive price incentives to keep sales up, but it helped to have the lowest costs of any U.S. carmaker. "People criticize us for the incentive strategy, but it's working for us," says CEO G. Richard Wagoner Jr.

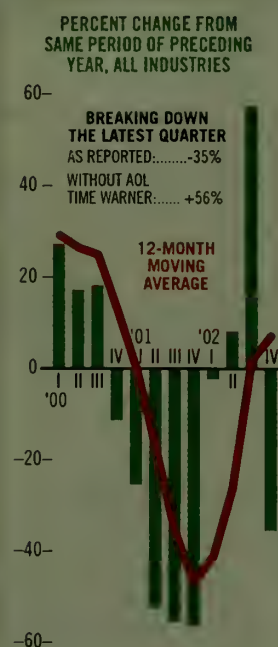
As rock-bottom interest rates helped boost home buying and refinancing, con-

sumer banks rang up big fees and boosted overall profits 39%, to \$52.6 billion. Bank of America's profits alone jumped 36%, to \$9.2 billion. Yet with delinquencies rising on loans and with interest rates already at historic lows, banks can't expect a reprise of the refi boom. And the big investment houses have been stung by bad loans, regulatory fights, and a steep falloff in investment banking. No outfit reflects the split fortunes of finance better than Citigroup: Earnings from consumer loans jumped 21%, but overall profits rose just 2%, to \$13.4 billion. Citi took a \$1.3 billion charge to cover fines and legal costs expected from federal and state investigations into its stock research.

In the beaten-down technology and

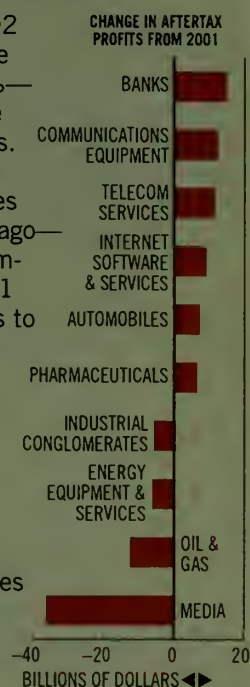
Spotlight On 2002 Profits

AFTERTAX PROFITS QUARTER BY QUARTER



INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN 2002

Extracting wisdom from the 2002 earnings scoreboard takes a little work. Profits were up a mere 7%—or 23% if you exclude AOL Time Warner and its \$44.6 billion loss. It looks like the beginnings of a recovery, with 42 of 57 industries making more money than a year ago—until you factor in how many companies are coming off huge 2001 write-offs. Banks did well thanks to Wachovia (+121%), Wells Fargo (+67%), and U.S. Bancorp (+95%). The communications services sector was a winner because Cisco Systems made \$2.8 billion, and Corning and Lucent Technologies lost less money than a year ago. But only 3 out of 23 oil and gas companies made more money in 2002 than in 2001.



Data: Standard & Poor's Compustat

Corporate Scoreboard

telecommunications sectors, there was even less reason to cheer. Corporate buyers continue to hold off on big purchases, choosing instead to make do with what they've already got, and consumers won't open their wallets without deep discounts. A few behemoths enjoyed substantial growth—most notably Microsoft Corp., which earned a cool \$9.5 billion in calendar 2002, 57% more than 2001. Sales of its software typically track new-computer sales, which Microsoft expects will remain weak this year. The solution: steer corporate buyers into subscription deals that generate recurring revenues and bigger profits.

Devoid of Microsoft's monopoly power, the rest of Techville could boost profitability only by cost-cutting. No sector wielded the ax more mercilessly than telecom. Verizon Communications Corp. grew its sales by just 1% in 2002, but



its \$4.6 billion in profits were 677% higher than in 2001, when weak results were worsened by big severance costs and writedowns of bad investments.

One loss dwarfed them all. As investors soured on the marriage of AOL and Time Warner, the company had to take two monster write-offs to reflect

the declining value of its assets. That resulted in a loss of \$44.6 billion—or \$9 billion, if you factor in cumulative accounting changes, which is how AOL reported it. As AOL sheds assets and looks to raise \$4 billion in a public offering of its cable unit, CEO Richard D. Parson has dubbed 2003 a “reset” year.

Of course, AOL isn't alone in having to pay for sins committed during the boom. The good news: Economists believe that, having taken their lumps, downtrodden companies will be well-positioned to benefit later this year. Yet war is only one way that rosy scenario could be canceled out. “The menu of risks and uncertainties is long,” says Prudential Securities Chief Economist Richard I. Rippe. More like an all-you-can-eat buffet for the economy's pessimists.

By Andrew Park in Dallas, with bureau reports

THE DEAD WEIGHT OF DEBT

At the peak of the '90s boom, it didn't seem to matter much that companies were building up a mountain of debt. Then the stock bubble burst, and the recession kicked in. Now, executives have to climb out of their earnings hole with a 50-pound weight tied around their necks, and that debt will remain a drag on profitability throughout 2003.

Any way you slice it, on an absolute basis or as a percentage of profits, net interest costs “remain exceptionally high,” says Ian Morris, chief economist at HSBC Securities Inc. As of the third quarter of 2002, corporate interest payments stood at \$255.4 billion, little changed from the record level set in the previous quarter. That kept the ratio of interest payments to profits at a record high 32% (chart). In a best-case scenario, Morris projects that the figure could edge down toward 25% this year. But that would still be far above the 19% average through the '90s and the 20% recorded at the start of 1992, about one year into the previous recovery.

It would be a lot worse if interest rates weren't also at historic lows. Like consumers, businesses have been furiously refinancing, with yields on investment-grade commercial debt now close to 6%, a near-record low. By issuing new bonds to pay off older, higher-rate debt, com-

panies are saving a lot of money.

Exelon Corp. is a prime example. The Chicago-based energy company recently sold two \$350 million blocks of bonds at 3.7% and 5.9%, respectively, to help pay off older, long-term bonds that carried rates of 6.5%. All told, Exelon is planning to refinance around \$1.4 billion in 2003, which it expects will cut its annual interest costs by \$30 million, or 3%.

Rates are even falling for junk bonds now that default rates are stabilizing and investors aren't “as scared of hitting more accounting scandals,” says David A. Wyss, chief economist at Standard & Poor's. He sees rates falling by another percentage point, by midyear. That should help heavily collateralized industries, such as utilities, non-bank financials, and the battered telecoms.

For other companies, though, there is little choice but to sell off assets. AOL Time Warner Inc., which expected to have a staggering \$28 billion in debt in 2003, recently sold its nearly \$800 million stake in Hughes Electronics and is mulling the possible sale of its professional

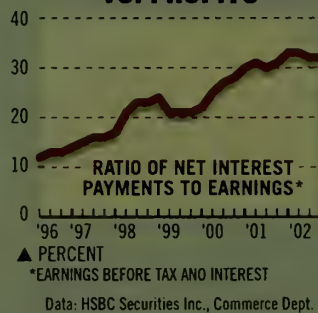
sports franchises and book-publishing unit.

As long as companies have to devote so much cash to paying down those huge obligations, they're unlikely to increase budgets for big capital-spending projects. That's a major reason why corporate profits, and the economy overall, are stuck in neutral. Indeed, the February survey of economists taken by Blue Chip Economic Indicators shows the consensus 2003 growth forecast for U.S. business investment at 3.4%, compared with 12.5% at the height of the boom in 1998. And that's after business investment fell an average of 5.5% in 2001 and 2002. Most business spending this year will be to replace old equipment and enhance productivity, not to expand.

The process of repairing balance sheets could take a couple more years. When companies finally do get healthy and demand picks up, says HSBC's Morris, you can expect strong and sustained profit growth. Right now, though, Corporate America's task is far from finished.

By James Mehring in New York, with bureau reports

DEBT SERVICE VS. PROFITS



Fourth Quarter & Full Year 2002

CORPORATE SCOREBOARD

Glossary

SALES: Includes all sales and other operating revenues. For banks, includes all operating revenues.

PROFITS: Net income before extraordinary items. For banks,

profits are net income after security gains or losses.

MARGINS: Net income from continuing operations before extraordinary items as percent of sales.

RETURN ON COMMON EQUITY: Ratio of net income available

for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.

PRICE-EARNINGS RATIO: Based on Feb. 6, 2003, common-

stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

EARNINGS PER SHARE: For most recent 12-month period. Includes all common-stock equivalents.

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-6	12 MONTHS' EARNINGS PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
ALL-INDUSTRY COMPOSITE	1762033.2	9	6755991.7	3	30232.8	-35	266865.9	7	1.7	2.9	8.9	29	0.91
CONSUMER DISCRETIONARY SECTOR													
CTOR COMPOSITE	424505.2	8	1662021.3	7	-31672.9	NM	2883.1	-87	NM	0.3	0.6	NM	0.04
AUTOMOBILES & COMPONENTS													
INDUSTRY GROUP COMPOSITE	120232.9	5	467409.5	4	1802.6	NM	4638.3	NM	1.5	NM	14.6	16	1.15
A) AUTO COMPONENTS													
INDUSTRY COMPOSITE	27975.4	8	110207.5	6	593.5	NM	1868.0	NM	2.1	NM	11.9	13	1.37
AMERICAN AXLE & MFG. HOLDINGS AXL	911.0	15	3480.2	12	52.2	66	176.1	53	5.7	4.0	25.0	7	3.38
ARVINMERITOR ARM (3)	1709.0	9	7025.0	5	32.0	191	170.0	204	1.9	0.7	20.5	7	2.51
AUTOLIV ALV	1178.8	22	4443.4	11	47.6	80	180.5	277	4.0	2.7	8.8	12	1.84
BANDAG BDG	231.0	-6	900.5	-5	17.5	1	50.1	14	7.6	7.1	11.8	13	2.52
BORGWARNER BWA	700.8	20	2731.1	16	40.8	NM	149.9	126	5.8	0.4	15.4	10	5.58
COOPER TIRE & RUBBER CTB	841.6	8	3330.0	6	23.5	50	111.8	516	2.8	2.0	11.9	10	1.51
DELPHI DPH	6971.0	9	27427.0	5	120.0	NM	343.0	NM	1.7	NM	26.8	14	0.61
FEDERAL SIGNAL FSS	292.1	7	1057.2	-1	13.2	40	46.2	-1	4.5	3.4	11.6	15	1.01
LAYES LEMMERZ INTERNATIONAL HLMQ (11)	535.4	4	1990.8	-3	3.7	NM	-267.4	NM	0.7	NM	NM	NM	-9.40
JOHNSON CONTROLS JCI (3)	5183.3	8	20469.0	9	140.4	17	621.0	14	2.7	2.5	17.8	12	6.56
LEAR LEA	3760.4	10	14424.6	6	118.0	NM	311.5	NM	3.1	NM	18.7	9	4.65
MODINE MFG. MODI (9)	272.0	1	1074.8	-1	9.6	668	31.3	33	3.5	0.5	6.0	18	0.93
TENNECO AUTOMOTIVE TEN	846.0	12	3459.0	3	9.0	NM	31.0	NM	1.1	NM	NM	3	0.74
VALVE-TECH VC	4543.0	1	18395.0	3	-34.0	NM	-87.0	NM	NM	NM	-2.9	NM	-0.68
B) AUTOMOBILES													
INDUSTRY COMPOSITE	92257.5	4	357202.0	4	1209.1	NM	2770.3	NM	1.3	NM	17.4	17	1.05
FORD MOTOR F	41580.0	2	162586.0	1	-11.0	NM	284.0	NM	NM	NM	4.8	60	0.15
GENERAL MOTORS GM	48656.0**	6	186763.0	5	1020.0	300	1736.0	189	2.1	0.6	24.5	11	3.35
HARLEY-DAVIDSON HDI	1080.5**	13	4302.5	20	150.9	27	580.2	33	14.0	12.4	26.0	21	1.90
MONACO COACH MNC	300.7	15	1222.7	30	12.1	59	44.5	79	4.0	2.9	17.1	8	1.51
THOR INDUSTRIES THO (5)	406.3	95	1443.1	76	20.8	212	65.3	161	5.1	3.2	18.4	12	2.30
WINNEBAGO INDUSTRIES WGO (4)	234.1	32	884.7	28	16.3	52	60.2	34	7.0	6.0	30.3	11	3.06
CONSUMER DURABLES & APPAREL													
INDUSTRY GROUP COMPOSITE	48906.7	14	175112.4	11	2935.5	66	10100.7	58	6.0	4.1	18.8	12	2.46
(A) HOUSEHOLD DURABLES													
INDUSTRY COMPOSITE	34882.5	17	123030.6	15	2105.4	46	6915.7	60	6.0	4.8	19.1	10	2.89
AMERICAN GREETINGS AM (10)	588.8	2	2126.3	5	47.0	609	62.6	NM	8.0	1.2	6.1	16	0.83
BEAZER HOMES USA BZH (3)	700.2	43	2851.6	48	36.9	59	136.4	62	5.3	4.7	16.3	5	10.93
BLACK & DECKER BDK	1231.8	3	4394.0	3	75.7	NM	229.7	113	6.1	NM	38.3	13	2.84
BLYTH BTH (11)	362.2	16	1276.7	11	30.5	18	80.2	22	8.4	8.3	15.6	15	1.72
CENTEX CTX (9)	2304.9**	22	8493.7	13	155.9	62	476.7	29	6.8	5.1	19.4	7	7.56
CLAYTON HOMES CMH (6)	300.0	1	1212.5	5	30.6	-9	124.1	12	10.2	11.4	9.6	13	0.90

(1) Fourth quarter ended Nov. 30. (2) Fourth quarter ended Oct. 31. (3) First quarter and most recent 12 months ended Dec. 31. (4) First quarter and most recent 12 months ended Nov. 30. (5) First quarter and most recent 12 months ended Oct. 31. (6) Second quarter and most recent 12 months ended Dec. 31. (7) Second quarter and most recent 12 months ended Nov. 30. (8) Second quarter and most recent 12 months ended Oct. 31. (9) Third quarter and most recent 12 months ended Dec. 31. (10) Third quarter and most recent 12 months ended Nov. 30. (11) Third quarter and most recent 12 months ended Oct. 31. *Sales include excise taxes. **Sales include other income. ***Sales include excise taxes and other income. †Revenues from major subsidiaries not included in consolidated sales. Earnings per share are for latest 12 months, not necessarily for end of most recent fiscal year; they include all common-stock equivalents but exclude extraordinary items. NA = not available. NM = not meaningful.

Data: Standard & Poor's COMPUSTAT

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-6	12 MONTHS EARNING PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
CSS INDUSTRIES CSS ⁽⁹⁾	250.7	6	501.9	18	25.7	11	26.5	25	10.2	9.8	11.7	10	3.2
ETHAN ALLEN INTERIORS ETH ⁽⁶⁾	229.7	3	908.9	2	23.1	9	87.5	19	10.1	9.5	16.6	14	2.2
FLEETWOOD ENTERPRISES FLE ⁽⁸⁾	641.1	9	2378.0	7	4.6	NM	-54.7	NM	0.7	NM	-29.9	NM	-0.7
FORTUNE BRANDS FO	1345.7	0	5366.6	3	131.4	2	525.6	36	9.8	9.6	22.4	13	3.4
FURNITURE BRANOS INTERNATIONAL F8N	595.5	25	2397.7	27	29.3	28	118.8	105	4.9	4.8	13.7	10	2.1
HARMAN INTERNATIONAL INDUSTRIES HAR ⁽⁶⁾	560.0	20	2010.5	15	27.6	135	78.2	341	4.9	2.5	13.8	25	2.25
HORTON (O.R.) DHI ⁽³⁾	1744.9	50	7323.8	55	111.8	52	443.1	58	6.4	6.3	18.7	6	2.9
HOVNANIAN ENTERPRISES HOV ⁽²⁾	831.4**	55	2551.1	46	54.4	151	138.3	117	6.5	4.0	24.6	7	4.30
KB HOME K8H ⁽¹⁾	1682.5	16	5030.8	10	123.7	40	314.4	47	7.4	6.1	24.7	6	7.1
KIMBALL INTERNATIONAL K8AL8 ⁽⁶⁾	302.3	2	1182.6	-1	-4.6	NM	-23.1	380	NM	2.2	5.2	23	0.61
LA-Z-BOY LZ8 ⁽⁸⁾	563.6	1	2200.6	2	28.7	132	94.4	127	5.1	2.2	15.6	13	1.5
LEGGETT & PLATT LEG	1012.6	5	4271.8	4	48.9	38	233.1	24	4.8	3.7	11.8	17	1.1
LENNAR LEN ⁽¹⁾	2639.6**	35	7319.8	21	225.0	38	545.1	30	8.5	8.3	24.5	7	7.7
M.O.C. HOLOINGS MDC	770.8	14	2317.6	9	57.1	21	167.3	7	7.4	7.0	20.9	6	6.03
MAYTAG MYG	1127.4	3	4666.0	11	4.0	-83	191.4	14	0.4	2.2	454.2	10	2
MERITAGE MTH	369.5**	51	1119.8	50	24.0	51	69.9	37	6.5	6.5	22.0	6	5.31
MI SCHOTTENSTEIN HOMES MHO	297.5**	-4	1033.0	6	15.9	8	66.6	27	5.3	4.8	19.6	6	4.3
MOHAWK INDUSTRIES MHK	1203.5	34	4522.3	31	84.2	42	284.5	51	7.0	6.6	15.0	12	4.39
NEWELL RUBBERMAID NWL	2013.6	11	7453.9	8	95.8	36	311.5	18	4.8	3.9	15.1	24	1.1
NVR NVR	788.3**	7	3136.3	20	78.9	18	331.5	40	10.0	9.1	82.2	9	36.05
PULTE HOMES PHM	2548.0**	27	7471.8	39	172.0	44	444.6	47	6.8	6.0	16.1	7	7.2
RYLANO GROUP RYL	929.7	12	2877.2	5	67.5	50	185.6	41	7.3	5.4	27.3	6	6.64
SALTON SFP ⁽⁶⁾	339.3	7	944.9	13	25.0	18	30.5	14	7.4	6.7	10.7	5	1.9
SNAP-ON SNA	560.8**	3	2146.8	1	33.1	NM	103.2	380	5.9	NM	12.4	14	1.76
STANDARD PACIFIC SPF	683.2	57	1885.2	36	52.3	67	118.7	7	7.7	7.2	15.3	7	3.67
STANLEY WORKS SWK	662.2	3	2593.5	-1	21.9	237	188.8	19	3.3	1.0	19.1	12	2.14
TOLL BROTHERS TOL ⁽²⁾	705.5**	7	2327.1	5	69.4	1	219.9	3	9.8	10.4	19.5	7	2.9
TORO TTC ⁽²⁾	275.4**	-3	1399.3	3	5.0	132	59.9	19	1.8	0.8	16.4	13	4.63
TUPPERWARE TUP	321.2	-2	1103.5	-1	34.5	21	90.1	47	10.7	8.7	50.8	10	1
WCI COMMUNITIES WCI	452.0	11	1217.5	10	44.6	-7	106.8	3	9.9	11.8	16.1	4	2.4
WHIRLPOOL WHR	2947.0	11	11016.0	7	14.0	-33	262.0	671	0.5	0.8	35.6	14	3.7
(B) LEISURE EQUIPMENT & PRODUCTS													
INDUSTRY COMPOSITE	6470.0	7	22953.5	1	371.6	NM	1455.1	156	5.7	NM	21.6	14	1.72
BRUNSWICK BC	928.0	29	3711.9	10	20.5	NM	103.5	22	2.2	NM	9.4	17	1.14
EASTMAN KODAK EK	3441.0	2	12835.0	-3	130.0	NM	793.0	879	3.8	NM	23.4	11	2.72
MATTEL MAT	1669.5	7	4885.3	4	186.1	35	455.0	46	11.1	8.8	23.0	20	1.0
POLARIS INDUSTRIES PII	431.5	3	1521.3	2	35.0	11	103.6	13	8.1	7.6	37.4	11	4.3
(C) TEXTILES, APPAREL & LUXURY GOODS													
INDUSTRY COMPOSITE	7554.2	8	29128.3	5	458.5	26	1729.9	14	6.1	5.2	16.1	16	2.0
BROWN SHOE BWS ⁽¹¹⁾	486.3	5	1804.6	3	21.0	77	12.7	-56	4.3	2.6	4.4	40	0.67
COACH COH ⁽⁶⁾	308.5	31	834.3	29	62.4	41	114.0	54	20.2	18.7	33.9	26	1.2
COLUMBIA SPORTSWEAR COLM	217.3	1	816.3	5	29.1	20	102.5	15	13.4	11.3	21.7	14	2.56
JONES APPAREL GROUP JNY	964.5	8	4340.9	6	51.6	65	332.3	41	5.4	3.5	14.4	12	2.4
KELLWOOD KWD ⁽¹¹⁾	633.4	5	2137.4	-9	21.1	51	30.4	-23	3.3	2.3	5.5	20	1.23
NIKE NKE ⁽⁷⁾	2514.7	8	10253.5	7	152.0	18	704.0	19	6.0	5.5	18.7	17	2.1
PHILLIPS-VAN HEUSEN PVH ⁽¹¹⁾	409.1	1	1415.3	-4	17.7	40	15.2	-43	4.3	3.1	5.3	22	0.54
POLO RALPH LAUREN RL ⁽⁹⁾	639.2	4	2380.1	5	42.8	-6	149.0	-13	6.7	7.4	13.3	14	1.9
REEBOK INTERNATIONAL R8K	762.8	15	3127.9	5	16.5	224	131.5	28	2.2	0.8	14.9	15	2.04
TIMBERLAND T8L	357.0	5	1190.9	1	27.1	-10	90.2	-15	7.6	8.9	24.4	15	2
WOLVERINE WORLD WIDE WWW	261.4	17	827.1	15	17.1	6	47.9	6	6.5	7.2	13.1	13	1.15
3 HOTELS RESTAURANTS & LEISURE													
INDUSTRY GROUP COMPOSITE	18241.7	9	73374.0	6	486.0	-26	5080.4	13	2.7	3.9	10.5	17	1.04
ARGOSY GAMING AGY	225.2	-2	936.8	20	16.5	-20	71.5	8	7.3	9.0	29.1	7	2.43
BOB EVANS FARMS BOBE ⁽⁸⁾	277.6	2	1077.9	4	20.1	7	74.5	30	7.2	6.9	13.6	11	2
BRINKER INTERNATIONAL EAT ⁽⁶⁾	794.5	16	3097.1	18	37.2	7	160.7	6	4.7	5.1	15.5	18	1.61
CARNIVAL CCL ⁽¹⁾	1035.7	8	4368.3	-4	191.3	65	1015.9	10	18.5	12.1	13.9	13	1.7
CBRL GROUP CBRL ⁽⁵⁾	527.5	6	2099.2	5	23.0	17	95.1	83	4.4	4.0	12.0	17	1.74
CKE RESTAURANTS CKR ⁽¹¹⁾	312.8	-4	1365.9	-8	10.1	NM	25.7	NM	3.2	NM	12.8	7	0.4
DAARON RESTAURANTS DRI ⁽⁷⁾	1071.5	6	4533.4	10	37.5	3	248.5	19	3.5	3.6	20.9	15	1.37
GTECH HOLOINGS GTK ⁽¹⁰⁾	256.5	-3	983.4	0	32.8	52	118.5	42	12.8	8.2	43.2	13	2.03
HARRAH'S ENTERTAINMENT HET	1015.9	7	4136.4	12	53.8	-2	324.6	56	5.3	5.8	21.8	12	2.86
HILTON HOTELS HLT	957.0	8	3847.0	-4	40.0	900	198.0	19	4.2	0.5	9.8	22	0
INTERNATIONAL GAME TECHNOLOGY IGT ⁽³⁾	531.7	76	2077.7	69	87.9	70	307.3	41	16.5	17.2	20.7	22	3.43
ISLE OF CAPRI CASINOS ISLE ⁽⁸⁾	260.1	0	1104.0	6	6.8	-35	7.0	-67	2.6	4.0	3.9	65	0.1
MANOALAY RESORT GROUP MBG ⁽¹¹⁾ †	592.8	2	2316.7	-3	33.2	43	65.1	-38	5.6	4.0	6.6	26	0.93

INDUSTRY SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-6	12 MONTHS' EARNINGS PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
McDONALD'S MCO	3899.2	3	15405.7	4	343.8	NM	992.1	-39	NM	7.2	9.3	18	0.77
GM MIRAGE MGG	982.7	10	4031.3	1	39.0	65	292.8	72	4.0	2.7	11.0	13	1.83
ARK PLACE ENTERTAINMENT PPE	1106.0	0	4652.0	2	-18.0	NM	158.0	NM	NM	NM	5.3	13	0.52
ROYAL CARIBBEAN CRUISES RCL	780.9	19	3434.3	9	38.3	NM	351.3	38	4.9	NM	8.7	8	1.79
JOBY TUESDAY RI (7)	211.5	6	865.2	10	17.6	17	64.1	-5	8.3	7.6	17.6	19	0.97
STARBUCKS SBUX (3)	1003.5	25	3487.1	25	80.0	17	226.7	13	8.0	8.5	12.7	39	0.57
STARWOOD HOTELS & RESORTS HOT	983.0	12	3879.0	-2	86.0	NM	246.0	70	8.7	NM	6.1	19	1.20
CAMP HOTELS & CASINO RESORTS OUT	283.1	1	1229.0	4	-17.3	NM	-12.0	NM	NM	NM	-12.7	NM	-0.54
ENDY'S INTERNATIONAL WEN	711.7	16	2730.3	14	50.7	9	218.8	13	7.1	7.6	15.2	14	1.89
WYNOHAM INTERNATIONAL WBR	421.2	6	1716.1	-9	-36.7	NM	-169.8	NM	NM	NM	-28.4	NM	-1.87

MEDIA

INDUSTRY GROUP COMPOSITE	33474.4	10	119713.7	8	-43068.7	NM	-39544.6	NM	NM	NM	-34.5	NM	-4.05
20/20 AO (3)	291.2	1	1134.3	1	10.9	-10	40.8	-15	3.8	4.2	112.4	15	2.04
20/20 ENTERTAINMENT AEN (9)	432.4	37	1683.7	30	1.3	NM	-11.9	NM	0.3	NM	-13.6	NM	-1.40
20/20 TIME WARNER AOL	11424.0	10	41065.0	10	-44905.0	NM	-44574.0	NM	NM	NM	-84.4	NM	-10.01
20/20 SNEY (WALT) DIS (3)	7466.0	6	25779.0	4	256.0	-42	1054.0	234	3.4	6.2	4.5	33	0.52
20/20 JW JONES OJ	396.8	-8	1559.2	-12	15.2	-53	201.5	105	3.8	7.4	302.3	16	2.40
20/20 ANNETT GCI	1726.2	7	6422.2	2	347.0	40	1160.1	40	20.1	15.4	17.8	17	4.31
20/20 ARTE-HANKS HHS	239.5	3	908.8	-1	24.2	2	90.7	-1	10.1	10.1	17.0	19	0.96
20/20 UGHES ELECTRONICS GMH	2471.7	8	8934.9	8	115.3	NM	-209.8	NM	4.7	NM	-2.7	NM	-0.21
20/20 NIGHT-RIDDER KRI	759.3	4	2841.6	-2	96.6	29	281.7	52	12.7	10.2	18.4	20	3.33
20/20 CLATCHY MNI	287.9	4	1081.9	0	39.0	87	131.2	126	13.6	7.6	12.1	19	2.84
20/20 CGRAW-HILL MHP	1172.3	5	4787.7	3	134.9	NM	576.8	53	11.5	NM	26.6	19	2.96
20/20 MEDIA GENERAL MEG	229.4	9	836.8	4	21.6	174	53.4	198	9.4	3.8	5.0	23	2.30
20/20 EREDITH MDP (6)	251.7	10	1025.1	2	19.3	122	109.8	128	7.7	3.8	24.4	19	2.15
20/20 ETRD-GOLDWYN-MAYER MGM	620.9	65	1654.1	19	58.7	50	-142.2	NM	9.4	10.4	-5.7	NM	-0.57
20/20 EW YDRK TIMES NYT	840.2	8	3079.0	2	107.5	45	299.7	48	12.8	9.5	23.7	24	1.94
20/20 LEADER'S DIGEST ASSOCIATION ROA (6)	830.6	6	2434.8	0	84.2	7	92.5	11	10.1	10.1	20.6	13	0.91
20/20 LEGAL ENTERTAINMENT GROUP RGC	547.3	128	2140.2	284	31.7	366	118.7	NM	5.8	2.8	7.1	23	0.81
20/20 SCHOLASTIC SCHL (7)	660.3	4	1940.9	4	75.0	13	94.4	273	11.4	10.4	12.6	15	2.34
20/20 CRIPPS (E.W.) SSP	478.1	28	1609.3	12	75.8	694	188.3	36	15.9	2.6	12.8	34	2.34
20/20 TRIBUNE TRB	1429.7	8	5384.4	2	193.5	81	608.6	448	13.5	8.1	10.4	26	1.80
20/20 WASHINGTON POST WPO	695.9	11	2584.2	7	93.7	545	216.4	-6	13.5	2.3	12.4	33	22.61
20/20 WILEY (JOHN) & SONS JW.A (8)	223.0	27	826.6	30	34.7	94	74.6	19	15.6	10.2	23.0	19	1.17

RETAILING

INDUSTRY GROUP COMPOSITE	203649.4	8	826411.7	8	6171.6	44	22608.4	20	3.0	2.3	13.0	24	1.15
A) DISTRIBUTORS													
INDUSTRY COMPOSITE	1340.6	7	4576.7	8	30.9	-11	57.2	-23	2.3	2.8	8.0	12	0.92
ADVANCED MARKETING SERVICES MKT (9)	294.8	10	883.7	23	8.8	-34	18.6	-18	3.0	5.0	12.8	12	0.94
ANDERSONS ANDE	355.2	16	1075.8	9	3.0	-29	13.3	47	0.9	1.4	12.7	7	1.79
RIGHTPOINT CELL	341.7	6	1276.1	1	3.1	151	-12.8	NM	0.9	0.4	-16.2	NM	-1.60
ANDLEMAN HOL (8)	348.9	-2	1341.0	5	16.0	2	38.1	-13	4.6	4.4	12.5	8	1.43
B) INTERNET & CATALOG RETAIL													
INDUSTRY COMPOSITE	3168.2	37	9753.8	31	45.9	-13	103.2	NM	1.4	2.3	3.5	NM	0.12
MAZDN.COM AMZN	1428.6	28	3932.9	26	2.7	-48	-149.9	NM	0.2	0.5	NM	NM	-0.40
EAY EBAY	413.9	89	1214.1	62	87.0	235	249.9	176	21.0	11.8	7.0	86	0.85
INSIGHT ENTERPRISES NSIT	772.0	46	2891.0	39	-78.1	NM	-42.8	NM	NM	0.0	-11.4	NM	-0.96
C MALL MALL	236.3	34	862.8	20	5.4	147	6.9	55	2.3	1.2	15.4	6	0.62
CHDOL SPECIALTY SCHS (8)	317.4	18	853.0	12	29.0	51	39.2	68	9.1	7.1	11.7	12	1.61
C) MULTILINE RETAIL													
INDUSTRY COMPOSITE	126914.7	7	517710.8	7	3333.5	42	11035.7	3	2.6	2.0	12.0	28	1.20
IG LDTS BLI (11)	868.2	12	3789.8	11	-5.1	NM	8.4	-80	NM	NM	0.9	NM	0.08
J'S WHOLESALE CLUB BJ (11)	1408.6	11	5729.6	10	23.4	NM	138.7	72	1.7	NM	20.0	7	1.92
DSTCD WHOLESALE COST (4)	9198.6**	9	39494.5	11	145.7	12	716.1	19	1.6	1.5	12.3	19	1.52
ILLARD'S OOS (11)	1857.6**	-4	8315.0	-3	-6.2	NM	164.8	582	NM	NM	7.5	8	1.93
DOLLAR GENERAL OG (11)	1497.7	14	5926.9	14	68.6	47	254.3	226	4.6	3.6	21.4	14	0.76
DOLLAR TREE STORES OLTR	827.5	16	2329.2	17	87.0	14	154.6	26	10.5	10.6	18.1	16	1.35
FAMILY DOLLAR STORES FOO (4)	1108.6	13	4294.2	12	57.5	14	224.2	13	5.2	5.1	19.3	23	1.29
MODERATED DEPARTMENT STORES FO (11)	3479.0**	0	15550.0	-4	75.0	188	607.0	0	2.2	0.7	10.7	8	3.03
RED'S FRED (11)	263.2	20	1052.0	19	7.4	44	25.6	47	2.8	2.3	10.6	26	0.98
KMART KMRTQ (11)	6729.0	-16	32765.0	-11	-384.0	NM	-3971.0	NM	NM	NM	NM	NM	-7.92
KDHL'S KSS (11)	2143.4	22	8660.0	24	133.4	33	598.3	36	6.2	5.7	18.5	30	1.74
MAY DEPARTMENT STORES MAY (11)	3052.0**	-5	13961.0	-4	16.0	-69	586.0	-26	0.5	1.6	15.0	10	1.86
HEIMAN MARCUS GROUP NMGA (5)	734.1**	8	3001.3	2	43.3	88	119.9	49	5.9	3.4	11.1	11	2.50

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-6	12 MONTH EARN PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
99 CENTS ONLY STORES NDN	210.7	22	713.9	23	19.7	20	59.0	22	9.4	9.5	14.9	27	0.1
NOROSTROM JWN ⁽¹¹⁾	1358.2**	7	5988.3	3	18.4	76	94.3	-7	1.4	0.8	7.1	25	0.7
PENNEY (J.C.) JCP ⁽¹¹⁾	7872.0	2	32340.0	1	89.0	187	264.0	NM	1.1	0.4	4.0	22	0.1
SAKS SKS ⁽¹¹⁾	1406.1**	-1	5981.6	-5	1.9	NM	55.6	NM	0.1	NM	2.5	22	0.3
SEARS, ROEBUCK S	12518.0	2	41366.0	1	848.0	72	1584.0	116	6.8	4.0	25.5	5	4.1
SHOPKO STORES SKO ⁽¹¹⁾	773.0	-3	3298.0	-6	0.9	NM	43.4	NM	0.1	NM	8.4	7	1.5
TARGET TGT ⁽¹¹⁾	10194.0**	9	43076.0	11	277.0	50	1624.0	29	2.7	2.0	18.6	15	1.1
VALUE CITY DEPARTMENT STORES VCD ⁽¹¹⁾	618.2	5	2417.6	4	-3.5	NM	-13.5	NM	NM	NM	-6.3	NM	-0.4
WAL-MART STORES WMT ⁽¹¹⁾	58797.0	11	237661.0	13	1820.0	23	7698.0	19	3.1	2.8	20.2	27	1.7
(D) SPECIALTY RETAIL													
INDUSTRY COMPOSITE	72225.9	8	294370.5	9	2761.3	49	11412.3	35	3.8	2.8	14.7	17	1.1
ABERCROMBIE & FITCH ANF ⁽¹¹⁾	419.3	18	1527.9	14	47.7	9	181.3	9	11.4	12.4	27.7	16	1.7
AMERICAN EAGLE OUTFITTERS AEOS ⁽¹¹⁾	374.5	3	1435.9	8	27.1	-12	93.8	-15	7.2	8.5	17.4	13	1.2
ANN TAYLOR STORES ANN ⁽¹¹⁾	340.2**	9	1400.1	10	24.9	106	63.7	92	7.3	3.9	9.2	14	1.3
AUTONATION AN	4518.5	-12	19478.5	-3	79.4	305	381.6	56	1.8	0.4	9.8	10	1.1
AUTOZONE AZO ⁽⁴⁾	1218.6	4	5368.1	9	104.9	25	449.0	118	8.6	7.1	59.6	15	4.2
BARNES & NOBLE BKS ⁽¹¹⁾	1130.9	14	5238.4	12	3.8	NM	72.9	NM	0.3	NM	7.9	19	0.9
BED BATH & BEYOND BBBY ⁽¹⁰⁾	936.0	23	3494.9	25	75.1	42	279.5	39	8.0	7.0	20.9	35	0.9
BEST BUY BBY ⁽¹⁰⁾	5505.0	16	22079.0	22	85.0	6	567.0	38	1.5	1.7	23.0	15	1.7
BORDERS GROUP BGP ⁽¹¹⁾	749.8	5	3469.6	3	-1.8	NM	114.8	113	NM	NM	12.4	11	1.3
BUILDING MATERIALS HOLDING BMHC	296.9	8	1161.5	6	1.0	-76	18.7	-10	0.4	1.6	7.4	11	1.4
BURLINGTON COAT FACTORY BCF ⁽⁷⁾	782.8	5	2670.3	9	41.6	1	71.7	22	5.3	5.5	9.6	11	1.6
CARMAX KMX ⁽¹⁰⁾	936.8	10	3802.5	15	14.7	-20	94.1	17	1.6	2.2	17.4	17	0.8
CDW COMPUTER CENTERS CDWC	1054.0	7	4264.6	8	45.5	9	185.2	10	4.3	4.2	20.0	21	2.1
CHARMING SHOPPES CHRS ⁽¹¹⁾	542.3	-1	2458.3	38	0.5	214	14.6	-55	0.1	0.0	2.6	39	0.0
CIRCUIT CITY STORES CC ⁽¹⁰⁾	2421.7	7	10152.8	9	-21.3	NM	107.1	30	NM	0.4	5.3	9	0.5
CLAIRE'S STORES CLE ⁽¹¹⁾	230.0	13	959.6	3	12.1	289	65.3	57	5.3	1.5	14.4	17	1.3
CSK AUTO CAO ⁽¹¹⁾	383.0	4	1490.9	2	10.7	80	23.4	NM	2.8	1.6	7.9	16	0.6
DICK'S SPORTING GOODS DKS ⁽¹¹⁾	290.6	18	1217.9	16	2.8	68	32.1	74	0.9	0.7	29.2	10	1.6
ELECTRONICS BOUTIQUE HOLDINGS ELBO ⁽¹¹⁾	283.0	55	1273.8	42	7.1	145	26.2	101	2.5	1.6	10.6	13	0.9
FOOT LOCKER Z ⁽¹¹⁾	1120.0	1	4450.0	-1	43.0	30	156.0	41	3.8	3.0	13.9	10	1.0
GAMESTOP GME ⁽¹¹⁾	286.7	44	1346.6	44	9.8	NM	39.6	NM	3.4	0.1	7.7	10	0.8
GAP GPS ⁽¹¹⁾	3645.0	9	13893.7	-3	135.3	NM	194.6	-35	3.7	NM	5.7	71	0.2
GART SPORTS GRTS ⁽¹¹⁾	227.8	4	1050.4	23	1.4	NM	18.0	46	0.6	NM	9.7	10	1.4
GENESCO GCO ⁽¹¹⁾	213.2	15	801.2	9	10.1	26	38.1	9	4.7	4.3	21.6	11	1.5
GOODY'S FAMILY CLOTHING GDYS ⁽¹¹⁾	268.3	-4	1199.0	-3	-3.1	NM	-4.0	NM	NM	0.1	-1.9	NM	-0.12
HOME DEPOT HD ⁽¹¹⁾	14475.0	9	58522.0	16	940.0	21	3688.0	32	6.5	5.9	18.3	14	1.56
HUGHES SUPPLY HUG ⁽¹¹⁾	804.1	2	3034.9	-3	19.8	11	56.0	88	2.5	2.2	8.7	10	2.36
JO-ANN STORES JAS.A ⁽¹¹⁾	430.1	4	1654.4	5	8.9	NM	38.5	NM	2.1	NM	14.8	12	1.99
LIMITED BRANDS LTD ⁽¹¹⁾	1982.6	4	9260.2	-5	15.8	-83	475.4	10	0.8	4.7	10.5	12	1.04
LINENS 'N THINGS LIN	723.3	23	2184.7	20	40.2	388	69.2	133	5.6	1.4	10.4	15	1.60
LOWE'S LOW ⁽¹¹⁾	6414.8	18	25626.6	20	339.2	35	1370.5	45	5.3	4.6	17.2	20	1.73
MEN'S WEARHOUSE MW ⁽¹¹⁾	292.5	2	1290.7	-3	4.3	8	38.8	-40	1.5	1.4	7.6	15	0.94
MICHAELS STORES MIK ⁽¹¹⁾	704.6	15	2792.4	15	33.0	144	138.7	84	4.7	2.2	14.7	13	1.98
OFFICEMAX OMX ⁽¹¹⁾	1258.4	6	4722.1	-1	16.5	NM	-196.4	NM	1.3	NM	-26.1	NM	-1.69
PACIFIC SUNWEAR OF CALIFORNIA PSUN ⁽¹¹⁾	228.2	25	788.4	20	15.9	79	40.6	48	7.0	4.9	14.7	21	0.8
PAYLESS SHOESOURCE PSS ⁽¹¹⁾	713.0	2	2869.7	-3	29.6	123	66.7	-29	4.2	1.9	11.3	16	2.89
PC CONNECTION PCCC	322.2	18	1191.5	0	2.9	98	3.2	-56	0.9	0.5	2.2	48	0.13
PEP BOYS-MANNY, MOE & JACK PBV ⁽¹¹⁾	544.9	-1	2197.9	-1	15.6	42	49.6	47	2.9	2.0	7.6	11	0.91
PETCO ANIMAL SUPPLIES PETC ⁽¹¹⁾	367.5	14	1434.9	12	12.0	450	3.8	-76	3.3	0.7	NM	NM	-0.56
PETSMART PETM ⁽¹¹⁾	657.4	10	2692.4	13	20.6	255	94.0	NM	3.1	1.0	14.8	21	0.69
PIER 1 IMPORTS PIR ⁽¹⁰⁾	438.5**	13	1712.4	14	31.1	24	124.4	42	7.1	6.5	19.7	12	1.37
REGIS RGIS ⁽⁶⁾	414.8	16	1560.0	13	23.6	39	83.0	37	5.7	4.7	16.5	14	1.85
ROSS STORES ROST ⁽¹¹⁾	870.2	18	3415.1	17	45.1	29	192.4	28	5.2	4.7	32.5	16	2.40
SHERWIN-WILLIAMS SHW	1156.1	2	5184.8	2	57.1	26	310.7	18	4.9	4.0	23.2	13	2.04
SPORTS AUTHORITY TSA ⁽¹¹⁾	310.5	2	1443.5	1	-4.2	NM	22.4	133	NM	NM	13.7	8	0.67
STAPLES SPLS ⁽¹¹⁾	3089.7	9	11190.2	2	128.0	40	375.2	531	4.1	3.2	15.4	21	0.80
TALBOTS TLB ⁽¹¹⁾	401.8**	2	1596.7	-3	37.4	2	124.9	-2	9.3	9.3	22.8	12	2.05
TIFFANY TIF ⁽¹¹⁾	366.0**	10	1653.3	2	35.2	46	183.4	4	9.6	7.2	16.3	19	1.23
TJX TJX ⁽¹¹⁾	3045.0	11	11684.4	14	147.4	-1	579.4	11	4.8	5.5	42.5	17	1.06
TOYS 'R' US TOY ⁽¹¹⁾	2271.0	4	11195.0	1	-28.0	NM	109.0	-32	NM	NM	2.9	15	0.55
TRACTOR SUPPLY TSCO	327.9	49	1210.0	42	17.6	85	38.8	50	5.4	4.3	17.0	18	1.97

SOME ARE INSPIRED BY THE SHEER MAGNITUDE OF IT ALL.
THE VIEW OUT THE WINDOW AIN'T TOO SHABBY EITHER.



Dependability based on longevity: 1981-July 2001 full-line light-duty truck company registrations.
Excludes other GM divisions. Tahoe is a registered trademark and Chevy is a trademark of GM Corp. © 2002 GM Corp. Buckle up, America!

Discover a comfortable, wide-open space before you ever go anywhere. Up front, there are available heated, adjustable seats with Custom Leather seating surfaces. And if you select the available second-row bucket seats, you get easy access to ample third-row seating. From the family of Chevy Trucks. The most dependable, longest-lasting trucks on the road.

Call 800-950-2438 or visit chevy.com

TAHOE  **LIKE A ROCK**

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-6	12 MONTH EARN PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
TRANS WORLD ENTERTAINMENT TWMC ⁽¹¹⁾	251.2	-8	1309.2	-8	-14.1	NM	7.7	-66	NM	NM	1.9	21	0.1
TWEETER HOME ENTERTAINMENT TWTR ⁽³⁾	249.7	-1	793.8	26	5.2	-61	-173.4	NM	2.1	5.4	96.4	NM	-7.3
WILLIAMS-SONOMA WSM ⁽¹¹⁾	527.9	14	2279.9	15	15.1	293	114.0	127	2.9	0.8	19.1	23	0.9
ZALE ZLC ⁽⁵⁾	412.1	1	2194.0	3	-6.7	NM	99.6	34	NM	NM	11.2	11	2.8

CONSUMER STAPLES

SECTOR COMPOSITE	193511.1	5	751120.2	6	9394.7	6	44795.3	29	4.9	4.8	26.0	17	1.9
6 FOOD & DRUG RETAILING													
INDUSTRY GROUP COMPOSITE	79742.6	5	312900.3	4	893.9	11	5552.7	41	1.1	1.1	16.1	18	1.0
ALBERTSON'S ABS ⁽¹¹⁾	8657.0	-4	36179.0	-2	194.0	10	946.0	122	2.2	2.0	17.1	9	2.3
CASEY'S GENERAL STORES CASY ⁽⁸⁾	549.1*	-1	2019.0	0	13.4	8	32.3	6	2.4	2.2	8.2	17	0.6
CVS CVS	6344.9	7	24181.5	9	200.1	NM	716.6	73	3.2	NM	13.7	14	1.7
FLEMING FLM	4077.3	18	15502.9	17	5.8	-33	40.2	348	0.1	0.2	7.8	3	0.8
FOODARAMA FSM ⁽²⁾	234.8	-6	963.6	2	0.6	-23	3.2	-18	0.3	0.3	8.8	9	3.0
GREAT ATLANTIC & PACIFIC TEA GAP ⁽¹⁰⁾	2466.5	-2	10786.2	-2	-29.7	NM	-144.2	NM	NM	NM	-28.4	NM	-3.7
INGLES MARKETS IMKTA ⁽³⁾	495.1**	-1	1956.1	0	3.2	-23	13.8	-21	0.6	0.8	5.8	18	0.6
KROGER KR ⁽¹¹⁾	11696.0	3	51419.0	1	255.0	92	1259.0	-19	2.2	1.2	33.4	9	1.5
LONGS DRUG STORES LDG ⁽¹¹⁾	1064.5	5	4469.3	6	3.0	17	46.7	40	0.3	0.3	6.5	18	1.2
PANTRY PTRY ⁽³⁾	651.0	13	2567.7	-1	4.9	936	6.2	NM	0.8	0.1	5.3	30	0.1
PATHMARK STORES PTMK ⁽¹¹⁾	971.6	-1	3938.1	-2	0.1	NM	-49.0	NM	0.0	NM	-14.0	NM	-1.6
PENN TRAFFIC PNFT ⁽¹¹⁾	580.1	-3	2369.0	-3	-5.7	NM	-23.6	NM	NM	NM	-17.4	NM	-1.1
PERFORMANCE FOOD GROUP PFGC	1203.6	31	4438.4	37	17.5	32	66.5	64	1.5	1.4	9.3	22	1.4
RITE AID RAD ⁽¹⁰⁾	3879.5	4	15698.8	3	-16.4	NM	-378.6	NM	NM	NM	NM	NM	-0.7
RUDOICK RDK ⁽³⁾	678.4	4	2669.4	0	13.0	23	54.4	NM	1.9	1.6	11.6	11	1.1
SAFEWAY SWY	10010.8	1	32399.2	2	-344.8	NM	565.0	-56	NM	3.7	15.9	18	1.1
SENECA FOODS SENE ⁽⁵⁾	235.4	-1	647.1	-1	3.1	37	7.7	NM	1.3	1.0	15.7	21	0.7
7-ELEVEN SE	2587.4**	13	10212.8	5	-10.3	NM	52.5	-48	NM	0.9	32.2	16	0.4
SUPERVALU SVU ⁽¹⁰⁾	4704.8	2	19700.4	-9	57.1	-2	225.9	226	1.2	1.3	11.1	9	1.6
SYSCO SYY ⁽⁶⁾	6348.8	14	24704.1	10	184.6	16	724.4	14	2.9	2.8	32.9	27	1.0
UNITED NATURAL FOODS UNFI ⁽⁵⁾	311.0	11	1206.1	15	4.0	53	18.6	46	1.3	0.9	11.3	22	0.9
VILLAGE SUPER MARKET VLGEA ⁽⁵⁾	216.5	3	889.0	7	2.5	-7	12.4	26	1.1	1.2	12.4	6	3.9
WALGREEN WAG ⁽⁴⁾	7484.9	14	29606.6	16	231.6	25	1064.9	17	3.1	2.8	16.6	28	1.0
WEIS MARKETS WMK	507.2	1	1999.4	1	16.0	28	59.1	18	3.1	2.5	10.9	14	2.1
WINN-DIXIE STORES WIN ⁽⁶⁾	3786.5	0	12377.6	1	91.4	76	232.6	92	2.4	1.4	25.0	8	1.6

7 FOOD, BEVERAGE & TOBACCO

INDUSTRY GROUP COMPOSITE	89370.7	4	347190.2	8	5516.2	-1	28985.2	25	6.2	6.5	26.3	14	2.23
(A) BEVERAGES													
INDUSTRY COMPOSITE	20668.0	10	76546.7	9	1382.2	35	6871.6	32	6.7	5.4	30.4	21	1.82
ANHEUSER-BUSCH BUD	3097.5	7	13566.4	5	269.2	18	1933.8	13	8.7	7.9	63.4	21	2.2
BROWN-FORMAN BF.B ⁽⁸⁾	607.1	5	1995.1	3	81.1	1	225.6	-2	13.4	13.8	16.3	21	3.3
COCA-COLA ENTERPRISES CCE	4249.0	8	16889.0	8	78.0	NM	494.0	NM	1.8	NM	15.0	20	1.0
CONSTELLATION BRANDS STZ ⁽¹⁰⁾	738.4	5	2752.1	9	64.3	30	179.8	41	8.7	7.1	15.7	13	1.9
COORS (AOLPH) RKY	981.1	76	3776.3	55	20.2	27	161.7	31	2.1	2.8	14.0	11	4.4
PEPSI BOTTLING GROUP PBG	2780.0	13	9216.0	9	57.0	338	428.0	40	2.1	0.5	23.5	18	1.46
PEPSIAMERICAS PAS	757.9	0	3239.8	3	7.3	-21	135.7	51	1.0	1.2	9.4	14	0.8
PEPSICO PEP	7457.0	7	25112.0	7	805.0	21	3313.0	24	10.8	9.6	35.6	22	1.85
(B) FOOD PRODUCTS													
INDUSTRY COMPOSITE	51840.0	7	198436.1	12	3089.4	43	10790.6	28	6.0	4.5	17.7	17	1.6
ARCHER DANIELS MIDLAND ADM ⁽⁶⁾	7807.4	43	27146.5	28	131.2	-13	468.8	9	1.7	2.7	7.0	17	0.72
CAMPBELL SOUP CPB ⁽⁵⁾	1705.0	-1	6109.0	3	192.0	12	546.0	-11	11.3	9.9	NM	18	1.32
CENTRAL GARDEN & PET CENT ⁽³⁾	211.9	1	1079.1	-4	-0.7	NM	29.3	NM	NM	NM	7.7	16	1.37
CONAGRA FOODS CAG ⁽⁷⁾	5964.6	-19	25686.0	-8	235.8	2	822.5	25	4.0	3.1	18.0	16	1.53
CORN PRODUCTS INTERNATIONAL CPO	472.7	-1	1870.9	-1	16.5	77	63.4	12	3.5	2.0	7.7	17	1.77
DOLE FOOD DOL	960.0	1	4392.1	2	18.4	351	156.2	NM	1.9	0.4	21.0	12	2.76
FLOWERS FOODS FLO	420.4	3	1652.2	2	-9.9	NM	6.1	NM	NM	NM	1.0	NM	0.20
GENERAL MILLS GIS ⁽⁷⁾	2953.0	60	10018.0	70	276.0	111	592.0	-5	9.3	7.1	15.5	28	1.5
HEINZ (H.J.) HNZ ⁽⁸⁾	2568.8	6	9076.2	-4	212.1	2	815.1	60	8.3	8.6	47.4	14	2.30
HERSHEY FOODS HSY	1156.0	0	4120.3	0	130.3	NM	403.6	95	11.3	NM	29.4	22	2.93
HORMEL FOODS HRL ⁽²⁾	1038.9	-2	3910.3	1	68.0	-1	189.3	4	6.5	6.5	17.0	16	1.35
INTERNATIONAL MULTIFOODS IMC ⁽¹⁰⁾	301.2	103	1490.6	40	12.8	NM	25.3	635	4.2	NM	11.4	17	1.30
INTERSTATE BAKERIES IBC ⁽⁷⁾	823.2	0	3543.1	1	11.6	-45	77.5	44	1.4	2.6	22.2	9	1.62
KELLOGG K	1980.7	4	8304.1	10	191.0	53	720.9	50	9.6	6.6	80.5	18	1.75
KRAFT FOODS KFT	7847.0	4	29723.0	2	931.0	70	3394.0	80	11.9	7.3	13.1	16	1.96
LANCASTER COLONY LANC ⁽⁶⁾	307.7	-1	1136.4	4	52.0	198	126.7	65	16.9	5.6	23.3	11	3.46
MCCORMICK MKC ⁽¹⁾	703.4	8	2320.0	5	77.2	31	179.8	23	11.0	9.1	30.4	18	1.26
PILGRIM'S PRIDE CHX ⁽³⁾	627.4	-4	2505.1	1	2.8	-79	4.1	-90	0.4	2.0	1.0	76	0.1
RALCORP RAH ⁽³⁾	348.3	7	1303.5	7	13.3	4	54.3	23	3.8	3.9	12.5	14	1.79
SARA LEE SLE ⁽⁶⁾	4776.0	2	18005.0	7	348.0	118	1264.0	-22	7.3	3.4	57.4	13	1.54



"Spectacular, isn't it?"

"Yes, that's what I call outperformance."

You can always rely on WestLB for the professional's point of view.
And for banking expertise backed by dedication. Working with us,
you'll gain an outstanding perspective.

Dedication you can count on. www.westlb.com



Equity Solutions | Credit Products | Treasury & Fixed Income | Financial Structuring | Asset Management



Hope.
Trust.

The people of health care provide it.
We support it.

From pharmaceutical researchers to pharmacists. Materials managers to nurses. Surgeons to health system CEOs. Worldwide, the 50,000 men and women of Cardinal Health partner with health care professionals each and every day. Our goal is simple. To help them focus on what counts — improving people's lives. www.cardinal.com



COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-6	12 MONTHS' EARNINGS PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
MITHFIELD FOODS SFD ⁽⁸⁾	1958.1	17	8008.2	26	4.1	-93	95.4	-62	0.2	3.6	7.0	21	0.84
MUCKER (J.M.) SJM ⁽⁸⁾	367.0	112	986.4	50	29.1	278	59.7	102	7.9	4.5	5.5	25	1.58
YSON FOODS TSN ⁽³⁾	5802.0	-1	23304.0	59	39.0	-69	295.0	57	0.7	2.2	8.0	11	0.83
RIGLEY (WM.) JR. WWY	739.3	16	2746.3	14	107.8	20	401.5	11	14.6	14.1	27.9	31	1.78
(C) TOBACCO													
INDUSTRY COMPOSITE	16862.7	-8	72207.3	-2	1044.7	-57	11323.1	18	6.2	13.1	42.2	8	4.62
LITRIA GROUP MO	14464.0	-9	62182.0	-2	1768.0	-18	11102.0	30	12.2	13.7	57.0	7	5.21
IMON DMN ⁽⁶⁾	305.7	-19	1171.3	-14	6.3	1	28.7	1	2.1	1.6	6.5	11	0.63
J. REYNOLDS TOBACCO HOLDINGS RJR	1406.0	-5	6211.0	-1	99.0	NM	418.0	-6	NM	6.0	6.2	9	4.64
TANDARD COMMERCIAL STW ⁽⁹⁾	263.0	12	960.1	1	12.1	95	45.9	51	4.6	2.6	19.6	5	3.18
ST UST	424.0*	-3	1682.9	3	-642.6	NM	-271.5	NM	NM	31.6	NM	NM	-1.61
HOUSEHOLD & PERSONAL PRODUCTS													
INDUSTRY GROUP COMPOSITE	24397.8	5	91029.7	5	2984.6	22	10257.4	34	12.2	10.6	38.0	22	2.31
(A) HOUSEHOLD PRODUCTS													
INDUSTRY COMPOSITE	17098.8	4	66012.8	5	2234.7	14	7996.5	38	13.1	12.0	37.3	22	3.06
OLGATE-PALMOLIVE CL	2420.4	4	9294.3	2	340.9	15	1288.3	12	14.1	12.7	374.7	23	2.19
IAL DL	333.6	8	1282.2	8	30.2	14	115.2	55	9.1	8.5	79.4	15	1.22
IMBERLY-CLARK KM8	3339.8	0	13566.3	2	369.6	8	1686.0	5	11.1	10.2	28.0	14	3.24
ROCTER & GAMBLE PG ⁽⁶⁾	11005.0	6	41870.0	7	1494.0	15	4907.0	65	13.6	12.5	32.9	24	3.48
(B) PERSONAL PRODUCTS													
INDUSTRY COMPOSITE	7299.0	7	25016.9	6	749.9	54	2260.9	23	10.3	7.2	40.6	25	1.26
ILBERTO-CULVER ACV ⁽³⁾	696.8	13	2733.5	13	36.0	23	144.4	24	5.2	4.8	15.9	21	2.42
VON PRODUCTS AVP	1854.1	6	6228.3	4	193.0	75	534.6	20	10.4	6.3	NM	23	2.22
LIZABETH ARDEN RDN ⁽¹¹⁾	314.8	10	741.7	22	37.7	13	-1.5	NM	12.0	11.7	-4.0	NM	-0.37
STEE LAUDER EL ⁽⁶⁾	1412.7	9	4905.9	6	109.6	22	208.3	-24	7.8	6.9	12.9	37	0.79
ILLETTE G	2529.0	5	8453.0	5	339.0	70	1209.0	33	13.4	8.3	53.5	25	1.14
IBTY N8TY ⁽³⁾	241.4	12	990.4	16	16.6	49	101.3	93	6.9	5.2	22.9	12	1.49
IU SKIN ENTERPRISES NUS	250.2	8	964.1	9	18.0	32	64.8	29	7.2	5.9	16.8	14	0.78
ENERGY													
CTOR COMPOSITE	149878.1	35	521033.9	4	686.9	74	12308.6	-61	0.5	0.4	5.3	39	0.94
ENERGY													
INDUSTRY GROUP COMPOSITE	149878.1	35	521033.9	4	686.9	74	12308.6	-61	0.5	0.4	5.3	39	0.94
(A) ENERGY EQUIPMENT & SERVICES													
INDUSTRY COMPOSITE	7867.8	-7	30872.9	-6	-5512.3	NM	-4030.1	NM	NM	5.7	-17.2	NM	-2.29
BJ SERVICES BJS ⁽³⁾	473.1	-7	1828.9	-19	33.5	-50	133.0	-62	7.1	13.1	9.4	39	0.83
COOPER CAMERON CAM	384.7**	-5	1538.1	-2	-2.4	NM	60.5	-38	NM	7.3	5.8	46	1.10
MC TECHNOLOGIES FTI	580.2	6	2071.5	7	24.5	14	64.1	63	4.2	3.9	21.1	20	0.96
VABORS INDUSTRIES N8R	380.0	-15	1466.4	-33	27.2	-56	121.5	-66	7.2	13.8	5.6	47	0.81
NOBLE NE	251.1	-5	986.4	-4	51.5	-19	209.5	-20	20.5	24.0	10.8	22	1.57
SCHLUMBERGER SL8	3433.8	-7	13473.7	-4	-2936.3	NM	-2417.5	NM	NM	4.9	-44.0	NM	-4.18
SMITH INTERNATIONAL SII	764.4	-15	3170.1	-11	17.7	-54	93.2	-39	2.3	4.2	8.8	35	0.93
TRANSOCEAN RIG	664.6	-11	2673.9	-5	-2780.7	NM	-2368.2	NM	NM	NM	-33.2	NM	-7.42
VARCO INTERNATIONAL VRC	354.0	-2	1335.1	5	21.1	-22	79.8	-4	6.0	7.5	8.7	22	0.82
WEATHERFORD INTERNATIONAL WFT	581.9	-6	2328.9	0	31.5	-42	-6.0	NM	5.4	8.8	-0.3	NM	-0.05
(B) OIL & GAS													
INDUSTRY COMPOSITE	142010.3	39	490161.0	5	6199.2	NM	16338.7	-44	4.4	NM	8.0	26	1.46
AMERADA HESS AHC	3297.0	14	11932.0	-11	-371.0	NM	-218.0	NM	NM	1.9	-5.1	NM	-2.48
ANADARKO PETROLEUM APC	1117.0	40	3860.0	-18	311.0	185	831.0	NM	27.8	13.7	12.3	14	3.21
APACHE APA	722.2	33	2559.7	-9	180.8	130	554.3	-23	25.0	14.5	11.7	16	3.78
ASHLAND ASH ⁽³⁾	1811.0	-1	7591.0	-2	3.0	-92	94.0	-75	0.2	2.1	4.5	21	1.34
BURLINGTON RESOURCES BR	817.0	31	2919.0	-14	157.0	NM	454.0	-19	19.2	NM	12.3	20	2.25
CHEVRONTXACO CVX	25158.0	28	91685.0	-6	904.0	NM	1132.0	-71	3.6	NM	3.5	60	1.07
CONOCOPHILLIPS COP	20253.0	157	50512.0	125	577.0	293	732.0	-55	2.8	1.9	-0.6	32	1.51
DEVON ENERGY DVN	1233.0**	84	4316.0	51	95.0	NM	59.0	157	7.7	NM	1.1	NM	0.30
EOG RESOURCES EOG	338.0	43	1093.9	-34	44.4	NM	87.2	-78	13.1	NM	5.0	61	0.65
EXXON MOBIL XOM	56211.0	18	204506.0	-4	3690.0	38	11011.0	-27	6.6	5.6	14.8	21	1.61
HOLLY HOC ⁽⁵⁾	275.7	7	906.6	-16	5.2	-74	17.1	-77	1.9	7.8	7.4	19	1.07
KERR-McGEE KMG	985.1	33	3700.0	4	-335.4	NM	-601.6	NM	NM	NM	-23.8	NM	-5.99
MARATHON OIL MRO	8530.0**	25	31464.0	-5	194.0	266	536.0	-59	2.3	0.8	10.7	13	1.72
MURPHY OIL MUR	1082.0**	42	3923.3	1	45.8	58	97.5	-70	4.2	3.8	6.4	41	1.06
NOBLE ENERGY N8L	447.6	47	1433.0	-10	16.8	NM	17.7	-87	3.8	NM	1.7	NM	0.31
OCCIDENTAL PETROLEUM OXY	1985.0	43	7338.0	-9	323.0	NM	1163.0	-1	16.3	NM	19.3	9	3.07
OCEAN ENERGY OEI	339.4	56	1162.1	-7	67.1	217	135.2	-51	19.8	9.7	8.4	26	0.74
POGO PRODUCING PPP	215.5	66	747.1	23	37.8	NM	107.0	22	17.5	1.1	10.3	20	1.77
PREMCO PCO	1965.7	58	6772.8	6	34.7	NM	-127.1	NM	1.8	NM	-18.4	NM	-2.65
SUNOCO SUN	3597.0	45	12465.0	1	61.0	NM	-47.0	NM	1.7	0.2	-3.4	NM	-0.62
TESORO PETROLEUM TSO	2001.4*	58	7119.3	37	-27.0	NM	-117.0	NM	NM	0.3	-13.1	NM	-1.93

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-6	12 MONTH EARN. PER SHAR
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
UNOCAL UCL	1519.0**	26	5179.0	-22	96.0	NM	330.0	-45	6.3	NM	10.0	20	1
VALERO ENERGY VLO	8109.7	183	26976.2	80	89.0	72	91.5	-84	1.1	1.8	2.2	46	0

FINANCIALS

SECTOR COMPOSITE	235897.5	2	931927.0	-5	26733.3	27	107243.4	17	11.3	9.1	13.3	14	2.3
------------------	----------	---	----------	----	---------	----	----------	----	------	-----	------	----	-----

10 BANKS

INDUSTRY GROUP COMPOSITE	72927.0	0	288588.2	-6	13448.2	44	52612.1	39	18.4	12.8	16.3	13	2.7
AMSOUTH BANCORPORATION ASO	751.4**	-5	3024.6	-11	155.2	10	609.1	14	20.7	17.7	19.5	12	1.6
ASSOCIATED BANC-CORP AS8C	260.5	2	1012.4	-6	53.4	15	210.7	17	20.5	18.1	16.6	12	2
ASTORIA FINANCIAL AF	326.6	-11	1373.7	-10	61.1	11	248.4	10	18.7	14.9	15.6	9	2.8
BANK OF AMERICA BAC	11551.0	-5	45732.0	-13	2614.0	27	9249.0	36	22.6	16.9	19.2	12	5.9
BANK OF NEW YORK BK	1461.0**	-17	5756.0	-20	100.0	-70	902.0	-33	6.8	18.9	13.5	19	1.2
BANK ONE ONE	5518.0	-5	22171.0	-10	842.0	56	3295.0	23	15.3	9.3	14.7	13	2.8
BANKNORTH GROUP BNK	391.0	3	1509.6	0	77.1	18	298.6	23	19.7	17.3	14.5	11	1.9
BB&T 88T	1594.6	6	6126.5	-2	337.3	21	1293.2	33	21.2	18.5	17.2	12	2.7
BOK FINANCIAL 80KF	224.5	11	898.9	-1	38.8	29	150.4	30	17.3	14.9	13.6	13	2.4
CHARTER ONE FINANCIAL CF	723.9**	-1	2834.0	-1	145.7	8	577.7	15	20.1	18.4	18.7	12	2.4
COLONIAL BANCGROUP CN8	230.1	-3	885.8	-11	34.8	9	140.9	15	15.1	13.4	13.2	10	1.1
COMERICA CMA	940.0	-4	3697.0	-13	206.0	4	601.0	-15	21.9	20.3	12.1	12	3.4
COMMERCE BANCORP C8H	272.2**	27	1012.8	26	40.6	44	144.8	41	14.9	13.1	15.8	21	2.0
COMMERCE BANCSHARES C8SH	234.4**	-3	933.1	-9	51.5	10	199.5	10	22.0	19.4	14.1	13	2.8
COMMERCIAL FEDERAL CF8	231.1	-3	897.3	-10	26.3	5	108.5	11	11.4	10.5	14.5	10	2.3
FIFTH THIRD BANCORP FIT8	1611.2	3	6323.5	-3	423.6	10	1634.7	49	26.3	24.7	19.5	19	2.7
FIRST TENNESSEE NATIONAL FTN	759.4	20	2580.2	5	103.3	16	376.5	15	13.6	14.1	22.3	13	2.8
FIRSTMERIT FMER	208.6	-4	834.4	-8	36.6	NM	154.4	26	17.6	0.8	15.9	11	1.8
FLEETBOSTON FINANCIAL F8F	3663.0	1	15139.0	-17	297.0	NM	1524.0	57	8.1	NM	9.1	18	1.4
GOLDEN WEST FINANCIAL GDW	954.4**	-6	3744.0	-16	249.4	9	958.3	17	26.1	22.4	19.1	12	6.1
GREENPOINT FINANCIAL GPT	465.8	4	1776.4	3	128.6	12	498.2	22	27.6	25.7	25.9	8	5.5
HIBERNIA HIB	335.7	-4	1340.0	-9	64.9	15	249.9	14	19.3	16.2	14.9	12	1.5
HUNTINGTON BANCSHARES H8AN	508.8	-12	2221.6	-10	85.1	30	363.2	103	16.7	11.4	15.8	12	1.4
KEYCORP KEY	1523.0	-6	6135.0	-17	245.0	NM	976.0	522	16.1	NM	14.7	11	2.2
M&T BANK MT8	596.4	-4	2354.0	-9	125.8	24	485.1	28	21.1	16.4	15.9	15	5.0
MARSHALL & ILSLEY MI	691.0	4	2650.0	-2	125.0	15	480.3	42	18.1	16.3	17.5	12	2.1
MELLON FINANCIAL MEL	1175.0**	34	4737.0	14	164.0	NM	667.0	53	14.0	NM	19.6	14	1.5
NATIONAL CITY NCC	2206.8	1	8727.8	-4	380.5	10	1593.6	15	17.2	15.8	19.2	10	2.5
NATIONAL COMMERCE FINANCIAL NCF	393.9	1	1550.9	-2	84.9	42	323.6	44	21.5	15.4	12.3	15	1.5
NORTH FORK BANCORPORATION NFB	336.1**	8	1310.2	8	107.3	19	416.9	26	31.9	29.0	27.5	12	2.5
NORTHERN TRUST NTRS	663.0**	-10	2775.1	-16	96.3	-6	447.1	-8	14.5	13.9	15.4	17	1.9
PEOPLE'S BANK (BRIDGEPORT, CONN.) P8CT	215.0**	-4	862.1	-18	17.1	138	55.4	-27	8.0	3.2	5.9	27	0.9
PNC FINANCIAL SERVICES GROUP PNC	1494.0	12	6312.0	-6	278.0	NM	1200.0	218	18.6	NM	17.5	10	4.2
POPULAR 8POP	654.7	6	2547.5	-1	80.8	7	351.9	16	12.3	12.2	15.1	13	2.6
PROVIDENT FINANCIAL GROUP PFGI	307.1**	-1	1212.5	-9	31.9	NM	119.4	412	10.4	NM	12.0	12	2.3
REGIONS FINANCIAL RF	978.9	-4	3795.9	-7	156.2	13	619.9	22	16.0	13.6	14.8	12	2.7
SKY FINANCIAL GROUP SKYF	211.0	10	775.8	1	33.9	6	127.8	6	16.1	16.7	15.4	13	1.5
SOUTHTRUST SOTR	827.8	-7	3326.4	-11	166.9	15	649.9	17	20.2	16.2	14.0	14	1.8
SOVEREIGN BANCORP SOV	633.1**	4	2492.1	-5	93.1	27	342.0	177	14.7	12.0	12.4	11	1.2
SUNTRUST BANKS STI	1844.6	-5	7526.9	-11	340.3	2	1331.8	-3	18.4	17.1	15.2	12	4.6
SYNOVUS FINANCIAL SNV	603.7	5	2289.9	0	104.4	23	365.3	17	17.3	14.9	18.6	16	1.2
TCF FINANCIAL TCB	291.2**	0	1150.2	-4	59.8	10	232.9	12	20.5	18.5	23.8	14	3.1
U.S. BANCORP US8	3941.6	3	15422.3	-6	849.8	22	3326.4	95	21.6	18.1	18.4	12	1.7
UNION PLANTERS UPC	698.0	-7	2689.6	-14	136.5	18	529.0	19	19.6	15.4	16.3	11	2.5
UNIONBANCAL U8	660.6	-3	2591.9	-11	145.0	10	527.9	10	21.9	19.4	14.0	12	3.3
WACHOVIA W8	5855.0**	-8	23591.0	5	895.0	22	3579.0	121	15.3	11.6	11.1	13	2.6
WASHINGTON MUTUAL WM	4771.0**	24	18755.0	6	969.0	15	3896.0	25	20.3	21.8	19.2	9	4.0
WEBSTER FINANCIAL W8S	231.9**	7	877.6	-4	39.4	7	152.7	15	17.0	17.0	15.5	11	3.3
WELLS FARGO WFC	7443.0	4	28473.0	6	1466.0	24	5710.0	67	19.7	16.5	18.8	14	3.3
ZIONS BANCORPORATION ZION	462.2	-3	1832.7	-9	84.1	12	317.1	6	18.2	15.7	13.4	12	3.4

11 DIVERSIFIED FINANCIALS

INDUSTRY GROUP COMPOSITE	112378.6	0	452267.9	-9	10478.0	11	40593.5	-6	9.3	8.3	12.5	16	2.0
AMERICAN EXPRESS AXP	6196.0**	6	23807.0	5	683.0	130	2671.0	104	11.0	5.1	19.1	17	2.0
BEAR STEARNS 8SC ⁽¹⁾	1520.9	-16	6890.8	-21	190.5	23	878.3	41	12.5	8.5	16.0	9	6.4
CAPITAL ONE FINANCIAL COF	2434.0	21	9647.6	31	239.7	35	899.6	40	9.8	8.8	19.5	8	3.9
CIT GROUP CIT ⁽³⁾	1228.8	-15	5059.8	-16	141.3	-23	-6741.5	NM	11.5	12.7	NM	NM	-31.8
CITIGROUP C	22796.0	-3	92556.0	-7	2429.0	-32	13448.0	2	10.7	15.2	16.8	13	2.5
COUNTRYWIDE FINANCIAL CFC	2845.2	62	8875.2	47	254.9	58	841.8	57	9.0	9.2	16.3	8	6.4
E*TRADE GROUP ET	487.4	-6	1914.4	-8	30.4	41	107.3	NM	6.2	4.2	7.1	14	0.3
EDWARDS (A.G.) AGE ⁽¹⁰⁾	510.5	-9	2262.6	-7	32.0	44	60.6	-61	6.3	4.0	3.6	37	0.7
FANNIE MAE FNM	13383.0	3	52901.0	4	952.2	-52	4618.8	-19	7.1	15.2	27.7	14	4.5
FRANKLIN RESOURCES 8EN ⁽³⁾	605.5	-2	2505.8	4	109.8	-7	424.0	-7	18.1	19.2	9.7	20	1.6



The only thing you miss out on is the office gossip.

With Express Network,SM being out of the office doesn't mean being out of touch with the people and information you rely on every day.

Access the Web or corporate intranets. Read and send e-mails. Download complex files and attachments effortlessly. Nobody has faster wireless technology for Internet connections available nationally in over 300 cities. And at speeds bursting up to 144 kbps, you can connect to the Internet from your laptop or PDA with maximum speeds faster than dial-up. All so you can work faster and be more productive. And all with no wires, phone jacks, or separate ISPs. Just another way Verizon Wireless is taking wireless Internet to the next level—and everywhere else.

Risk Free Trial

Ask how to get the 1st
month of access waived!

1.800.2 JOIN IN verizonwireless.com



Requires compatible PC card or phone with connecting cables, to be purchased separately. Express Network is not as fast as 802.11 service. Expect avg. speeds of 40–60 kbps. Not available in all areas. Only available with digital service. See brochure for details. With 1 or 2 year agreement. Subject to Customer Agreement and Calling Plans. After trial, monthly access of \$35.00–\$99.99 and other charges & restrictions may apply. ©2003 Verizon Wireless

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-6	12 MONTH EARNIN PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
FREDDIE MAC FRE	11058.0	17	40159.0	11	1703.0	25	5764.0	39	15.4	14.4	27.6	7	7.9
GATX GMT	323.9	-6	1281.7	-14	-29.4	NM	29.0	287	NM	NM	3.6	30	0.5
GOLOMAN SACHS GROUP GS ⁽¹⁾	5048.0	-17	22854.0	-27	505.0	2	2114.0	-8	10.0	8.1	11.2	17	4.0
HOUSEHOLD INTERNATIONAL HI	3875.5	7	15049.8	9	338.2	-37	1557.8	-16	8.7	14.8	17.7	8	3.2
J.P. MORGAN CHASE JPM	10698.0	2	43372.0	-14	-387.0	NM	1663.0	-3	NM	NM	3.9	28	0.80
JANUS CAPITAL GROUP JNS †	248.3	-26	1144.8	-26	45.0	-39	84.7	-72	18.1	22.1	5.6	40	0.3
LEGG MASON LM ⁽⁹⁾	401.0	-1	1564.4	9	47.9	16	188.3	31	11.9	10.2	16.1	18	2.7
LEHMAN BROTHERS HOLDINGS LEH ⁽¹⁾	4133.0	-4	16781.0	-25	243.0	87	1031.0	-18	5.9	3.0	11.7	14	3.6
MBNA KRB	2834.2	3	10694.7	5	540.2	3	1933.1	14	19.1	19.1	20.5	11	1.4
MERRILL LYNCH MER	6478.0	-14	28253.0	-27	603.0	NM	2577.0	350	9.3	NM	11.6	13	2.6
METRIS MXT	274.0	-49	1385.4	-25	-48.5	NM	-33.9	NM	NM	13.1	-11.4	NM	-1.2
MOODY'S MCO	271.9	23	1023.3	28	69.8	19	288.9	36	25.7	26.6	NM	23	1.8
MORGAN STANLEY MWD ⁽¹⁾	7570.0	-8	32415.0	-26	732.0	-16	2988.0	-17	9.7	10.5	13.9	14	2.6
PRICE (T. ROWE) GROUP TROW	219.0**	-9	917.6	-11	46.2	3	194.3	-1	21.1	18.7	17.1	17	1.52
PRINCIPAL FINANCIAL GROUP PFG	2333.6	12	8979.2	2	215.4	NM	618.1	64	9.2	0.9	9.3	15	1.77
PROVIDIAN FINANCIAL PVN	659.1	-23	4072.6	-26	12.1	NM	151.0	7	1.8	NM	7.1	12	0.52
RAYMONO JAMES FINANCIAL RJF ⁽³⁾	344.6	-5	1496.4	-7	14.4	-20	75.6	-8	4.2	5.0	9.0	17	1.52
SCHWAB (CHARLES) SCH	996.0**	-6	4135.0	-5	-79.0	NM	97.0	24	NM	NM	2.3	NM	0.0
SLM SLM	917.5	8	3436.3	-14	306.0	15	792.0	106	33.4	31.3	42.6	21	4.93
STATE STREET STT	1202.0**	-6	4900.0	-14	477.0	179	1015.0	62	39.7	13.4	21.2	12	3.10
STUDENT LOAN STU	226.5	-16	992.8	-15	43.0	-1	175.5	30	19.0	16.0	22.9	11	8.77
WFS FINANCIAL WFSI	259.2	39	939.8	38	18.0	29	82.1	33	7.0	7.5	12.9	9	2.05
12 INSURANCE													
INDUSTRY GROUP COMPOSITE	46459.1	9	175725.8	7	2152.6	29	11697.9	35	4.6	3.9	8.9	16	1.90
ACE ACE	2103.0	7	7220.0	9	-168.0	NM	77.0	NM	NM	2.3	0.8	NM	0.19
AFLAC AFL	2666.0	11	10257.0	7	186.0	14	821.0	20	7.0	6.8	13.5	20	1.55
ALLSTATE ALL	7587.0	3	29579.0	2	447.0	69	1465.0	26	5.9	3.6	8.2	16	2.06
AMERUS GROUP AMH	365.1	-9	1428.4	11	7.2	-63	62.9	-23	2.0	4.9	5.0	17	1.56
CINCINNATI FINANCIAL CINF	722.0	11	2843.0	11	56.0	56	238.0	23	7.8	5.5	4.3	24	1.46
COMMERCE GROUP CGI	322.4	9	1257.1	9	1.5	-95	35.5	-61	0.5	9.5	4.5	31	1.08
FIDELITY NATIONAL FINANCIAL FNF	1590.0	40	5082.6	31	174.9	90	531.7	71	11.0	8.2	23.6	6	5.38
GALLAGHER (ARTHUR J.) AJG	311.6	23	1120.8	24	38.3	16	129.7	4	12.3	13.0	24.6	17	1.41
HARTFORD FINANCIAL SERVICES GROUP HIG	4161.0	8	15907.0	5	258.0	79	1000.0	85	6.2	3.7	9.1	10	3.97
HORACE MANN EDUCATORS HMN	210.6	4	771.8	-4	13.5	181	11.3	-56	6.4	2.4	2.3	51	0.28
JEFFERSON-PILOT JP	836.5	4	3480.0	4	66.6	-31	450.2	-12	8.0	12.0	12.8	12	3.04
JOHN HANCOCK FINANCIAL SERVICES JHF	2276.7	-15	8910.7	-5	113.3	11	516.2	-16	5.0	3.8	8.5	15	1.76
MARKEL MKL	509.2	32	1770.2	27	26.3	NM	75.3	NM	5.2	NM	6.5	28	7.65
MARSH & MCLENNAN MMC	2640.0	15	10440.0	6	312.0	117	1365.0	40	11.8	6.3	27.3	17	2.45
MBIA MBI	330.8	11	1232.8	8	121.4	-22	586.8	1	36.7	52.4	10.8	10	3.98
MGIC INVESTMENT MTG	415.6**	16	1565.8	15	137.5	-15	629.2	-2	33.1	45.0	18.5	7	6.04
MONY GROUP MNY	554.2	6	2094.5	0	6.1	NM	-20.8	NM	1.1	NM	-1.0	NM	-0.44
NATIONWIDE FINANCIAL SERVICES NFS	992.0**	28	3376.1	9	106.5	82	149.6	-65	10.7	7.6	3.4	23	1.13
OHIO CASUALTY OCAS	440.0	-9	1702.8	-10	29.1	-30	-0.9	NM	6.6	8.6	-0.1	NM	-0.01
OLO REPUBLIC INTERNATIONAL ORI	758.3	19	2756.4	16	93.5	5	392.9	13	12.3	14.0	12.9	8	3.23
PMA CAPITAL PMACA	292.6	28	1075.1	26	-10.4	NM	-48.0	NM	NM	2.9	-8.3	NM	-1.53
PMI GROUP PMI	293.4**	5	1121.4	20	84.3	-2	339.0	9	28.7	30.8	15.4	7	3.71
PROGRESSIVE PGR	2545.0	28	9282.9	24	152.2	22	667.3	62	6.0	6.3	18.9	16	2.99
RAOIAN GROUP RDN †	279.1	9	1080.8	18	107.8	12	427.2	19	38.6	37.6	15.3	8	4.41
REINSURANCE GROUP OF AMERICA RGA	714.3	30	2382.0	21	35.8	NM	128.5	222	5.0	NM	10.9	11	2.59
SAFECO SAFC	1759.6	3	7065.1	3	57.1	564	301.1	NM	3.2	0.5	7.4	15	2.33
SELECTIVE INSURANCE GROUP SIGI	309.1	12	1179.0	11	12.4	82	42.1	60	4.0	2.5	6.6	14	1.57
ST. PAUL SPC	2011.2	-16	8917.7	0	250.5	NM	249.1	NM	12.5	NM	4.4	28	1.06
STANCORP FINANCIAL GROUP SFG	488.0	20	1770.0	12	33.9	21	111.0	5	6.9	6.9	9.6	13	3.73
TORCHMARK TMK	700.8	3	2799.8	3	105.2	27	383.4	8	15.0	12.3	13.9	11	3.18
TRAVELERS PROPERTY CASUALTY TAP.B	4153.3	31	14269.7	17	-793.4	NM	215.6	-80	NM	9.5	1.9	67	0.23
UNITRIN UTR	669.6	30	2298.2	-9	-3.7	NM	-8.2	NM	NM	NM	-0.4	NM	-0.12
UNUMPROVIOENT UNM	2451.1	5	9688.2	3	94.3	-26	374.1	-36	3.8	5.5	5.6	9	1.54
13 REAL ESTATE													
INDUSTRY GROUP COMPOSITE	4132.8	8	15345.0	12	654.3	-2	2339.8	22	15.8	17.4	8.2	18	1.45
BOSTON PROPERTIES BXP	348.0	28	1242.8	18	254.3	352	419.9	98	73.1	20.7	19.3	8	4.40
EQUITY OFFICE PROPERTIES TRUST EOP	899.2	-1	3612.9	15	175.4	37	732.0	22	19.5	14.2	6.6	15	1.61
EQUITY RESIDENTIAL EQR	492.9	-3	1994.1	-2	74.2	-15	301.5	-17	15.0	17.2	5.0	32	0.75
FELCOR LOOING TRUST FCH	309.3	2	1321.3	9	-178.4	NM	-178.6	NM	NM	NM	-15.2	NM	-3.78
FOREST CITY ENTERPRISES FCE.A ⁽¹⁾	233.5**	0	940.3	7	9.2	-86	45.0	-53	3.9	28.6	6.5	37	0.89
GENERAL GROWTH PROPERTIES GGP †	422.7	29	1366.6	18	81.2	32	201.6	84	19.2	18.7	15.4	17	2.97
JONES LANG LASALLE JLL	270.1	-2	837.8	-7	17.1	NM	25.9	NM	6.3	NM	7.1	16	0.81
PLUM CREEK TIMBER PCL	281.0	17	1137.0	90	54.0	-76	233.0	-31	19.2	94.2	10.5	17	1.26
SIMON PROPERTY GROUP SPG †	649.3	8	2245.9	6	112.0	87	408.3	103	17.3	10.0	12.9	17	1.93
ST. JOE JOE	226.7	28	646.4	9	55.3	243	151.2	155	24.4	9.1	31.6	15	1.86



You can't always control
how they use office supplies,
but you can control overall costs.



Better watch your backside. If your company spends a million dollars on office supplies annually, your employees are contacting your supplier about 38 times a day. That's a big chunk of time. And Boise knows how to cut it. Our streamlined system recognizes end-users instantly and remembers their preferences. So ordering is faster and easier. Over 96% of requests are completed in one contact. And our unique Customer Insight ReportsSM help you track all orders, so you can control overall costs. For proof, just call 1-888-BOISE-88. **Boise. It Couldn't be Easier.[®]**

BOISE[®]

Office Solutions

OFFICE PRODUCTS • TECHNOLOGY • FURNITURE • OFFICE PAPERS

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-6	12 MONTHS EARN PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
HEALTH CARE													
SECTOR COMPOSITE	147154.7	12	550688.3	15	13942.3	37	47905.6	17	9.5	7.8	22.6	23	1.67
14 HEALTH-CARE EQUIPMENT & SERVICES													
INDUSTRY GROUP COMPOSITE	94933.3	12	357842.0	18	3350.1	40	13610.4	51	3.5	2.8	16.1	22	1.62
(A) HEALTH-CARE EQUIPMENT & SUPPLIES													
INDUSTRY COMPOSITE	13210.6	12	49434.7	17	1480.3	80	5968.3	49	11.2	7.0	19.2	28	1.33
APOGENT TECHNOLOGIES AOT (3)	266.5	10	1098.0	9	28.9	-4	134.0	14	10.8	12.4	13.5	14	1.23
APPLIED BIOSYSTEMS GROUP ABI (6)	444.7	8	1666.9	3	29.2	-40	150.7	-19	6.6	11.9	13.2	23	0.71
BARO (C.R.) 8CR	331.7	10	1273.8	8	46.6	19	155.0	8	14.0	13.0	17.6	19	2.94
BAUSCH & LOMB 8OL	477.4	8	1816.7	9	32.4	147	72.5	73	6.8	3.0	7.1	23	1.34
BAXTER INTERNATIONAL BAX	2261.0	10	8110.0	10	259.0	NM	1033.0	53	11.5	NM	23.6	17	1.67
BECKMAN COULTER BEC	595.5	3	2059.4	4	33.5	-31	135.5	-4	5.6	8.4	22.9	15	2.08
BECTON, DICKINSON BDx (3)	1051.6	11	4139.8	8	113.6	14	493.9	6	10.8	10.5	20.0	17	1.85
BIOMET 8MET (7)	341.4	18	1289.5	15	70.4	14	258.6	20	20.6	21.2	22.2	28	0.98
BOSTON SCIENTIFIC BSX	814.0	20	2919.0	9	105.0	62	373.0	NM	12.9	9.6	15.1	45	0.90
OENTSPLY INTERNATIONAL XRAY	411.8	9	1513.7	34	42.3	25	148.0	22	10.3	8.9	17.7	18	1.85
FISHER SCIENTIFIC INTERNATIONAL FSH	822.1	9	3238.4	12	26.9	145	96.7	490	3.3	1.5	72.4	17	1.67
GUIOANT GDT	895.5	25	3239.6	20	92.4	-32	611.8	26	10.3	18.8	26.4	16	2.00
HILLENBRAND INDUSTRIES HB (3)	471.0	-13	2075.0	NA	8.0	-87	-11.0	NA	1.7	11.6	-1.1	NM	-0.20
INVACARE IVC	282.0	8	1089.2	3	17.6	NM	64.8	84	6.3	NM	13.5	15	2.05
MEOTRONIC MDT (8)	1891.0	20	6988.8	18	301.7	352	1300.8	58	16.0	4.2	18.1	41	1.07
ST. JUDE MEDICAL STJ	409.5	18	1589.9	18	73.0	45	276.3	60	17.8	14.4	17.5	27	1.51
STERIS STE (9)	244.3	12	943.0	12	21.5	53	71.3	550	8.8	6.4	13.2	24	1.01
STRYKER SYK	829.2	17	3011.6	16	106.1	30	345.6	27	12.8	11.5	23.1	36	1.70
ZIMMER HOLOINGS ZMH	370.2	19	1372.4	16	72.2	67	257.8	72	19.5	13.9	70.4	32	1.31
(B) HEALTH-CARE PROVIDERS & SERVICES													
INDUSTRY COMPOSITE	81722.7	12	308407.3	19	1869.8	19	7642.1	52	2.3	2.2	14.4	18	1.96
ACCUREO HEALTH ACDO (6)	363.8	128	1050.8	97	17.0	136	47.7	109	4.7	4.5	9.3	26	1.04
ADVANCEPCS ADVP (9)	4106.4	22	14990.2	18	45.0	38	159.0	78	1.1	1.0	17.1	18	1.57
AMERISOURCEBERGEN ABC (3)	12434.5	12	46600.5	95	92.7	37	369.8	123	0.7	0.6	10.8	17	3.36
ANTHEM ATH	3900.3	50	12290.5	21	171.9	96	549.1	60	4.4	3.4	10.2	13	4.51
CARDINAL HEALTH CAH (6)	14091.0	8	53447.3	7	367.5	30	1252.4	28	2.6	2.2	19.2	21	2.75
CIGNA CI	4748.0	-1	19348.0	4	44.0	-76	-397.0	NM	0.9	3.8	-9.0	NM	-2.83
COVANCE CVD	245.7	14	924.7	3	17.0	74	63.8	33	6.9	4.6	14.8	24	1.03
COVENTRY HEALTH CARE CVH	946.3	16	3576.9	14	40.4	77	145.6	74	4.3	2.8	22.5	11	2.38
D&K HEALTHCARE RESOURCES DKWD (6)	530.8	-10	2397.8	16	2.7	-42	18.4	31	0.5	0.8	11.0	8	1.23
GENESIS HEALTH VENTURES GHVI (3)	669.5	5	2654.3	7	16.2	-4	76.7	NM	2.4	2.6	7.9	9	1.67
HCA HCA	5024.0	11	19729.0	10	-102.0	NM	833.0	-13	NM	1.3	14.6	26	1.59
HEALTH MANAGEMENT ASSOCIATES HMA (3)	609.4	23	2376.2	22	59.7	18	255.6	25	9.8	10.2	18.2	17	1.01
HUMANA HUM	2855.0**	9	11261.2	10	-1.7	NM	142.8	22	NM	1.3	8.9	10	0.85
MANOR CARE HCR	728.1	3	2905.4	8	23.1	NM	131.9	93	3.2	NM	13.0	14	1.33
McKESSON MCK (9)	14921.0	13	55225.7	14	134.3	22	505.9	324	0.9	0.8	11.7	16	1.70
OWENS & MINOR OMI	1021.1	5	3959.8	4	14.2	26	47.2	57	1.4	1.2	17.4	13	1.26
OXFORD HEALTH PLANS OHP	1298.6**	16	4963.4	12	73.8	-22	222.0	-31	5.7	8.4	44.7	13	2.45
PATTERSON DENTAL PDCO (8)	400.8	13	1545.8	23	27.5	18	105.0	25	6.9	6.6	18.4	26	1.53
PSS WORLO MEOICAL PSSI (9)	303.9	9	1344.5	6	3.9	-11	8.9	538	1.3	1.6	3.6	50	0.13
QUEST DIAGNOSTICS DGX	1033.8	14	4108.1	13	81.7	61	322.2	75	7.9	5.6	18.2	16	3.32
QUINTILES TRANSNATIONAL QTRN	408.3	1	1579.1	-3	22.6	-69	81.7	NM	5.5	18.0	5.1	18	0.69
SELECT MEOICAL SEM	295.4	13	1126.6	17	12.1	-34	44.2	15	4.1	7.0	15.4	16	0.90
SIERRA HEALTH SERVICES SIE	326.9**	12	1278.6	16	12.2	120	42.3	173	3.7	1.9	26.8	10	1.36
TENET HEALTHCARE THC (7)	3778.0	11	14703.0	14	315.0	254	1262.0	113	8.3	2.6	21.4	7	2.54
UNITEDHEALTH GROUP UNH	6682.0**	11	25020.0	7	379.0	53	1352.0	48	5.7	4.1	30.5	20	4.25
15 PHARMACEUTICALS & BIOTECHNOLOGY													
INDUSTRY GROUP COMPOSITE	52221.5	11	192846.3	9	10592.3	36	34295.2	7	20.3	16.7	26.9	24	1.69
(A) BIOTECHNOLOGY													
INDUSTRY COMPOSITE	3536.6	38	11308.7	28	781.9	92	-2006.2	NM	22.1	15.9	-6.9	NM	-0.89
AMGEN AMGN	1766.1	57	5523.0	38	456.4	180	-1391.9	NM	25.8	14.5	-7.6	NM	-1.21
BIOMGEN BGEN	302.4	8	1148.4	10	81.0	38	238.7	-12	26.8	21.0	14.6	26	1.57
CHIRON CHIR †	330.3	13	1171.7	11	67.1	50	181.1	4	20.3	15.3	8.7	39	0.94
GENENTECH DNA	756.0**	33	2617.9	26	92.8	121	63.8	-59	12.3	7.4	1.2	NM	0.12
MEOIMMUNE MEDI	381.8	30	847.7	37	84.6	-14	-1098.0	NM	22.2	33.7	-65.5	NM	-4.40
(B) PHARMACEUTICALS													
INDUSTRY COMPOSITE	48684.9	10	181537.6	8	9810.3	33	36301.4	21	20.2	16.7	36.8	20	2.02
ABBOTT LABORATORIES ABT	4839.2	9	17684.7	9	627.1	2	2793.7	80	13.0	13.8	26.5	21	1.78
ALLERGAN AGN	378.2	23	1385.0	21	64.4	6	64.0	-63	17.0	19.9	7.9	NM	0.49
BARR LABORATORIES 8RL (6)	209.0	-43	900.3	-14	42.7	2	182.6	20	20.5	11.5	23.8	18	4.00
FOREST LABORATORIES FRX (9)	586.8**	46	2022.3	39	174.6	100	537.8	73	29.8	21.7	27.9	35	1.44
JOHNSON & JOHNSON JNJ	9403.0	14	36298.0	12	1438.0	30	6651.0	17	15.3	13.4	30.1	24	2.18

JEEP GRAND CHEROKEE OVERLAND
Redwood trim | Sunroof | 10-disc CD changer | The most refined Jeep 4x4 ever | jeep.com

ONLY IN A



NEVER CONFUSE YOUR NET WORTH
WITH YOUR SELF WORTH.

Jeep is a registered trademark of DaimlerChrysler Corporation.

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-6	12 MONTHS EARN- ING PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
LILLY (ELI) LLY	2955.6	4	11077.5	-4	736.3	25	2707.9	-4	24.9	20.8	32.7	24	2.5
MERCK MRK	13918.4	11	51790.3	9	1889.8	2	7149.5	-2	13.6	14.8	40.8	17	3.1
MYLAN LABORATORIES MYL ⁽⁹⁾	320.5	8	1198.1	12	68.4	-12	265.8	13	21.4	26.3	18.3	19	1.4
PERRIGO PRGO ⁽⁶⁾	227.5**	-1	821.2	0	16.8	11	56.1	30	7.4	6.7	13.5	16	0.7
PFIZER PFE	9333.0	14	32373.0	12	2707.0	40	9181.0	22	29.0	23.6	49.5	20	1.47
SCHERING-PLOUGH SGP	2370.0	-4	10180.0	4	428.0	199	2089.0	8	18.1	5.8	26.2	13	1
WATSON PHARMACEUTICALS WPI	329.6	12	1223.2	5	43.1	-7	175.8	51	13.1	15.8	9.8	18	1.6
WYETH WYE	3814.0	4	14584.0	4	1574.0	91	4447.2	95	41.3	22.3	66.1	11	3.3

INDUSTRIALS

SECTOR COMPOSITE	243021.1	6	930763.6	2	6901.7	5	36891.5	-2	2.8	2.9	10.7	26	1.11
------------------	----------	---	----------	---	--------	---	---------	----	-----	-----	------	----	------

16 CAPITAL GOODS

INDUSTRY GROUP COMPOSITE	158428.3	4	604179.3	3	6350.2	-16	30840.9	-7	4.0	4.9	13.1	20	1.44
--------------------------	----------	---	----------	---	--------	-----	---------	----	-----	-----	------	----	------

(A) AEROSPACE & DEFENSE

INDUSTRY COMPOSITE	53338.8	2	198202.1	3	247.2	-76	8435.9	23	0.5	2.0	12.4	18	2.12
ALLIANT TECHSYSTEMS ATK ⁽⁹⁾	519.8	12	2067.5	28	35.9	63	120.3	53	6.9	4.7	18.5	16	3.0
AVIALL AVL	220.6	93	803.3	59	7.4	NM	26.7	670	3.4	NM	0.8	96	0.0
BOEING BA	13701.0	-13	54069.0	-7	590.0	490	2319.0	-18	4.3	0.6	30.1	11	2.8
GENCORP GY ⁽¹⁾	317.0	-14	1135.0	-24	13.0	-88	30.0	-77	4.1	28.9	8.3	11	0.69
GENERAL DYNAMICS GD	3937.0	13	13829.0	15	269.0	7	1051.0	11	6.8	7.2	20.5	13	5.1
GOODRICH GR	1181.4	12	3910.2	-7	11.7	NM	165.9	-6	1.0	NM	16.2	11	1.5
HONEYWELL INTERNATIONAL HON	5855.0	0	22274.0	-6	-1467.0	NM	-220.0	NM	NM	2.0	-2.1	NM	-0.2
KAMAN KAMNA	230.6**	6	882.1	1	5.9	-16	-33.6	NM	2.5	3.2	-11.5	NM	-1.50
L-3 COMMUNICATIONS HOLDINGS LLL	1305.6	85	4011.2	71	79.8	79	212.4	84	6.1	6.3	9.8	18	2.2
LOCKHEED MARTIN LMT	7780.0	6	26578.0	11	-342.0	NM	533.0	NM	NM	NM	9.1	43	1.1
NORTHROP GRUMMAN NOC	4830.0	17	17206.0	32	226.0	60	697.0	52	4.7	3.4	4.7	16	5.7
PRECISION CASTPARTS PCP ⁽⁹⁾	501.6	-18	2249.5	-11	37.4	NM	169.9	135	7.5	NM	16.2	8	3.2
RAYTHEON RTN	4662.0	6	16760.0	5	155.0	142	755.0	NM	3.3	1.5	8.4	16	1.8
ROCKWELL COLLINS COL ⁽³⁾	561.0	0	2490.0	-11	49.0	2	237.0	84	8.7	8.5	23.7	16	1.29
UNITED DEFENSE INDUSTRIES UDI	521.2	29	1725.3	31	43.1	272	136.3	268	8.3	2.9	NM	9	2.5
UNITED TECHNOLOGIES UTX	7215.0**	3	28212.0	1	533.0	54	2236.0	15	7.4	4.9	26.4	14	4.42

(B) BUILDING PRODUCTS

INDUSTRY COMPOSITE	4328.7	3	18075.0	3	127.1	NM	672.0	91	2.9	NM	32.4	11	2.73
AMERICAN STANDARD ASD	1877.0	7	7795.0	4	74.0	270	371.0	26	3.9	1.1	161.3	13	5.04
GRIFFON GFF ⁽³⁾	302.2	0	1192.9	2	10.9	3	34.4	2	3.6	3.5	11.7	13	0.99
LENNOX INTERNATIONAL LII	704.4	-3	3025.8	-3	5.0	NM	58.8	NM	0.7	NM	13.0	12	1.00
NCI BUILDING SYSTEMS NCS ⁽²⁾	253.8	-6	953.4	0	11.6	118	32.1	94	4.6	2.0	10.6	12	1.7
UNIVERSAL FOREST PRODUCTS UFPI	340.3	3	1639.9	7	4.6	11	36.6	11	1.3	1.3	13.9	9	1.97
USG USG	851.0	4	3468.0	5	21.0	NM	139.0	769	2.5	NM	26.0	2	3.2

(C) CONSTRUCTION & ENGINEERING

INDUSTRY COMPOSITE	5765.6	12	22295.8	20	101.7	8	450.6	23	1.8	1.8	14.1	12	1.83
FLUOR FLR	2465.0	-6	9959.0	11	44.7	42	170.0	33	1.8	1.2	19.2	13	2.13
INTEGRATED ELECTRICAL SERVICES IES ⁽³⁾	348.6	-7	1448.8	-12	3.8	NM	15.6	-22	1.1	NM	6.0	10	0.40
JACOBS ENGINEERING GROUP JEC ⁽³⁾	1218.7	19	4746.2	17	30.1	17	114.0	22	2.5	2.5	15.8	18	2.0
SHAW GROUP SGR ⁽⁴⁾	996.9	120	3714.0	136	16.5	-13	95.9	41	1.7	4.2	14.5	6	2.24
URS URS ⁽²⁾	736.5	10	2427.8	5	6.6	-67	55.2	-5	0.9	3.0	7.8	6	2.0

(D) ELECTRICAL EQUIPMENT

INDUSTRY COMPOSITE	8503.4	4	33801.4	-5	464.0	8	2087.1	40	5.5	5.2	14.9	18	1.66
ACUTY BRANDS AYL ⁽⁴⁾	505.2	5	1996.3	2	10.5	-9	51.0	32	2.1	2.4	12.6	11	1.2
AMERICAN POWER CONVERSION APCC	358.0	6	1300.0	-7	28.3	-3	116.5	3	7.9	8.6	8.9	26	0.59
AMETEK AME	252.6	6	1040.5	2	21.3	86	83.7	27	8.4	4.8	21.1	13	2.4
COOPER INDUSTRIES CBE	985.0	0	3960.5	-6	27.8	-56	213.7	-18	2.8	6.3	10.7	16	2.2
EMERSON ELECTRIC EMR ⁽³⁾	3241.0	-2	13770.0	-7	217.0	-15	1022.0	10	6.7	7.7	17.4	19	2.4
ENERGIZER HOLDINGS ENR ⁽³⁾	572.4	1	1744.4	2	86.4	23	202.4	NM	15.1	12.4	26.0	12	2.20
GENERAL CABLE BGC	351.4	-2	1453.9	-12	-7.2	NM	-18.1	NM	NM	0.9	-29.7	NM	-0.5
HUBBELL HUB.B	426.2	42	1587.8	21	27.2	NM	108.6	125	6.4	NM	14.6	17	1.8
MANUFACTURERS SERVICES MSV	209.0	-23	853.7	-44	0.1	NM	-11.3	NM	0.0	NM	-13.1	NM	-0.4
RAYOVAC ROV ⁽³⁾	260.2	61	671.1	9	-0.6	NM	28.2	48	NM	0.2	15.9	15	0.88
ROCKWELL AUTOMATION ROK ⁽³⁾	984.0	5	3954.0	-4	42.0	45	239.0	181	4.3	3.1	14.8	18	1.2
SMITH (A.O.) AOS	358.5	40	1469.1	28	11.2	NM	51.3	254	3.1	NM	10.0	14	1.8

(E) INDUSTRIAL CONGLOMERATES

INDUSTRY COMPOSITE	51858.8	3	197593.9	3	4408.0	-20	14246.2	-29	8.5	10.9	14.2	22	1.1
CARLISLE CSL	463.9	7	1971.3	7	14.9	96	72.4	191	3.2	1.7	13.1	18	2.3
GENERAL ELECTRIC GE	34963.0**	3	130685.0	4	3102.0	-21	15133.0	7	8.9	11.6	24.3	15	1.5
TEXTRON TXT	2862.0**	-10	10658.0	-13	131.0	-49	364.0	119	4.6	8.1	10.8	15	2.6
3M MMM	4138.0	7	16332.0	2	511.0	34	1974.0	38	12.3	9.9	32.9	25	4.9
TYCO INTERNATIONAL TYC ⁽³⁾	8939.4	4	36004.4	4	634.5	-32	-3370.6	NM	7.1	10.9	-14.1	NM	-1.69
WALTER INDUSTRIES WLT	492.5	11	1943.2	1	14.6	19	73.4	70	3.0	2.8	21.7	6	1.6

**YOUR
CUSTOMERS
EXPECT
YOUR ENTIRE
ENTERPRISE
TO REVOLVE
AROUND
THEM.**

**(SOUNDS LIKE A SOLID
BUSINESS PLAN TO US.)**

Every customer is an investment. But are you investing wisely? mySAP™ CRM, the only open and integrated CRM solution, makes valuable customer data available to your entire organization. In real time. So the back office knows what the front office knows, which makes it easier to give customers what they need. A lot more efficiently. And for a lot less money. Visit sap.com or call 800 880 1727 to find out more about mySAP CRM.

THE BEST-RUN BUSINESSES RUN SAP



When you stay in a box, does it stay with you?"



TheHiltonFamilyTM

Hilton HHonors[®]
Points & Miles

The size of your hotel room can affect the size of your impact. After all, the night before the meeting your confidence needs room to grow. That's why at Embassy Suites every guest is guaranteed



...acious two-room suite. It's the kind of space you don't get in most other hotels,
...s exactly the kind of space you deserve. Visit our web site or call 1-800 EMBASSY.



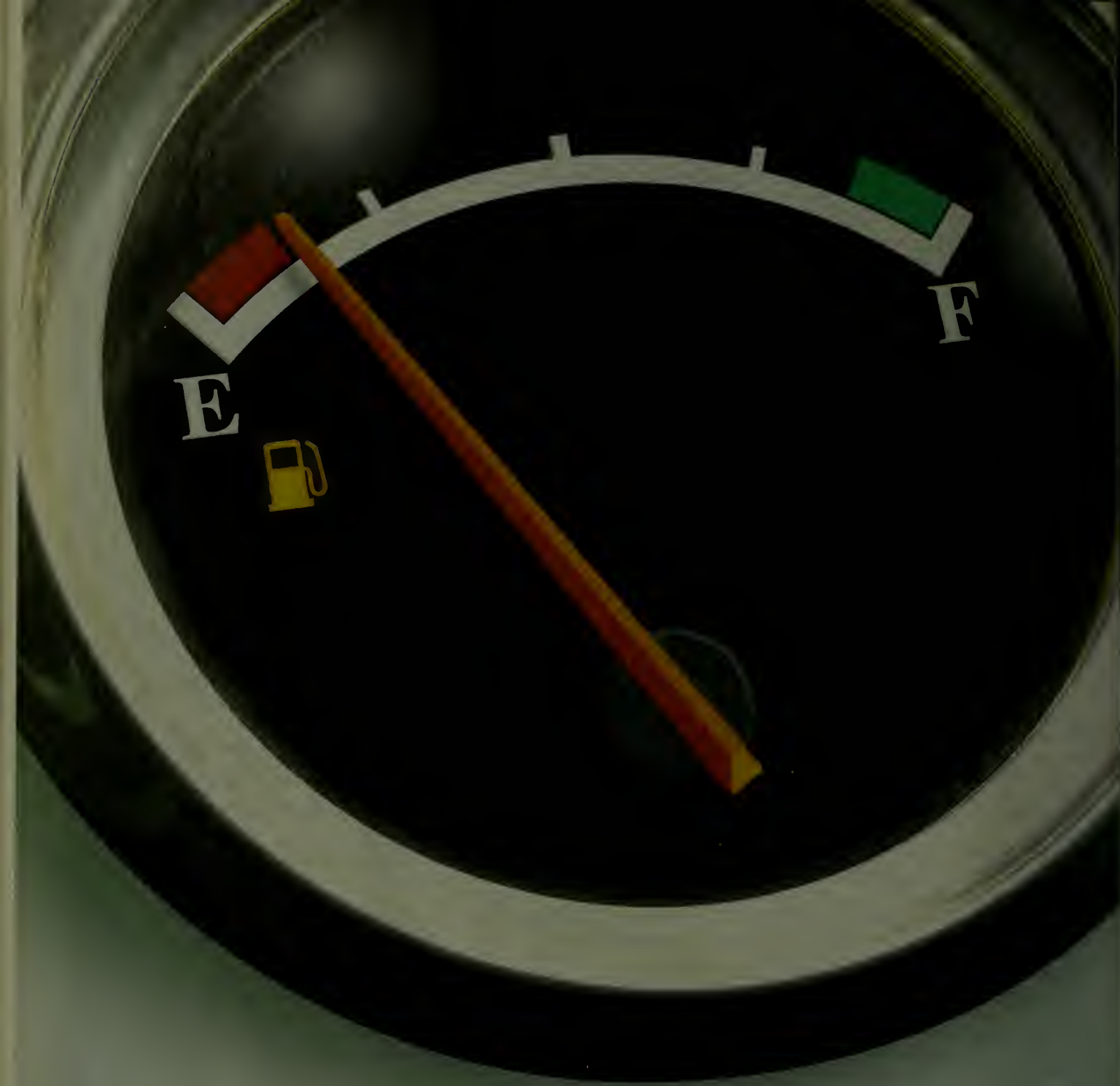
EMBASSY SUITES
HOTELS®

embassysuites.com

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-6	12 MONTH EARN PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
(F) MACHINERY													
INDUSTRY COMPOSITE	32726.8	8	126391.3	4	906.4	143	4583.2	28	2.8	1.2	10.4	23	1.7
AGCO AG	843.7	9	2922.7	15	-82.0	NM	-60.3	NM	NM	3.0	-8.4	NM	-0.8
ALBANY INTERNATIONAL AIN	215.2	-1	816.0	-2	17.8	NM	54.8	64	8.3	0.3	13.7	14	1.6
BRIGGS & STRATTON BGG (6)	352.6	6	1565.1	19	11.7	394	72.9	277	3.3	0.7	16.4	13	3.1
CATERPILLAR CAT	5377.0	6	20152.0	-1	305.0	83	798.0	-1	5.7	3.3	14.6	19	2.3
CRANE CR	367.2	-1	1516.3	-4	-51.2	NM	16.6	-81	NM	4.8	2.6	58	0.2
CUMMINS CUM	1414.0	-3	5853.0	3	47.0	NM	70.0	NM	3.3	0.2	8.1	14	1.8
DANAHER DHR	1275.0	39	4577.2	21	131.7	298	434.1	46	10.3	3.6	14.4	22	2.7
DEERE DE (2)	3469.4**	10	13947.0	5	68.0	NM	319.2	NM	2.0	NM	10.1	31	1.3
DONALDSON DCI (5)	301.1	4	1138.6	0	22.8	16	90.0	15	7.6	6.8	23.1	17	1.9
DOVER DOV	1044.8	1	4183.7	-4	38.9	-9	211.1	16	3.7	4.1	8.8	24	1.0
EATON ETN	1775.0	5	7209.0	-1	67.0	123	281.0	66	3.8	1.8	12.2	18	3.9
FLOWSERVE FLS	624.8	16	2251.3	17	17.1	4	60.4	269	2.7	3.1	8.0	11	1.1
HARSCO HSC	497.3	0	1976.7	-2	23.9	116	88.4	15	4.8	2.2	13.7	13	2.1
ILLINOIS TOOL WORKS ITW	2427.4	7	9467.7	2	227.9	21	931.8	16	9.4	8.2	14.0	20	3.0
INGERSOLL-RAND IR	2444.6	7	8951.3	4	126.6	94	367.3	102	5.2	2.9	10.6	18	2.1
ITT INDUSTRIES ITT	1244.3	5	4985.3	7	95.1	579	379.9	75	7.6	1.2	33.4	14	4.0
JOY GLOBAL JOYG (2)	273.0	-10	1150.8	0	6.0	NM	-23.2	NM	2.2	NM	-6.6	NM	-0.4
KENNAMETAL KMT (6)	431.7	14	1632.7	-4	2.5	NM	41.8	3	0.6	NM	5.7	24	1.2
MUELLER INDUSTRIES MLI	216.1**	2	953.0	-2	8.8	-21	71.2	9	4.1	5.3	9.0	14	1.9
NAVISTAR INTERNATIONAL NAV (2)	2052.0	12	6764.0	1	-405.0	NM	-476.0	NM	NM	0.7	NM	NM	-7.8
OSHKOSH TRUCK OSK (3)	426.3	18	1808.4	19	11.3	31	62.3	22	2.6	2.4	14.4	17	3.3
PACCAR PCAR	1919.0	25	7218.6	18	122.2	142	372.0	114	6.4	3.3	14.3	15	3.20
PALL PLL (5)	332.2	21	1348.9	10	-23.1	NM	30.7	-73	NM	7.1	3.9	65	0.2
PARKER HANNIFIN PH (6)	1517.2	6	6339.0	7	37.6	29	139.0	-40	2.5	2.0	5.2	35	1.1
PENTAIR PNR	640.3	10	2580.8	0	28.1	NM	129.9	126	4.4	NM	11.7	14	2.6
STEWART & STEVENSON SERVICES SVC (11)	296.6	-7	1188.0	-12	5.0	-57	14.6	-74	1.7	3.7	3.9	30	0.50
TECUMSEH PRODUCTS TECUA	304.2	2	1343.8	-4	9.3	52	54.1	26	3.1	2.0	5.5	15	2.9
TIMKEN TKR	644.9	12	2550.1	4	36.5	NM	51.5	NM	5.7	0.2	8.4	20	0.8
(G) TRADING COMPANIES & DISTRIBUTORS													
INDUSTRY COMPOSITE	1906.1	3	7819.9	-1	95.8	12	366.0	22	5.0	4.6	12.6	23	1.4
APPLIED INDUSTRIAL TECHNOLOGIES AIT (6)	355.7	2	1454.8	-4	3.9	32	14.7	-31	1.1	0.8	4.9	21	0.76
FASTENAL FAST	219.3	11	905.4	11	16.9	26	74.8	7	7.7	6.7	15.0	33	0.99
GRAINGER (W.W.) GWW	1120.4	1	4643.9	-2	62.6	2	235.5	35	5.6	5.5	14.6	18	2.50
MSC INDUSTRIAL DIRECT MSM (4)	210.7	12	815.8	-2	12.5	57	41.0	19	5.9	4.2	8.4	30	0.5
17 COMMERCIAL SERVICES & SUPPLIES													
INDUSTRY GROUP COMPOSITE	32474.9	14	122327.1	6	1559.9	48	8268.0	22	4.8	3.7	17.5	21	1.1
ABM INDUSTRIES ABM (2)	584.8**	7	2181.9	2	12.1	NM	46.7	42	2.1	NM	12.1	16	0.92
ALLIANCE DATA SYSTEMS ADS	236.8	12	871.5	12	10.6	NM	25.7	NM	4.5	NM	4.9	48	0.3
APOLLO GROUP APOL (4)	308.9	35	1090.2	33	56.7	72	184.9	59	18.4	14.4	23.6	45	0.98
ARAMARK RMK (3)	2387.7	13	9047.9	14	62.7	22	281.2	52	2.6	2.4	31.3	16	1.3
AUTOMATIC DATA PROCESSING ADP (6)	2556.5**	52	7045.0	1	261.7	-1	1111.7	11	10.2	15.7	22.3	18	1.80
AVERY DENNISON AVY	1105.3	21	4206.9	11	55.5	-4	257.2	6	5.0	6.4	24.3	23	2.5
BANTA BN	348.2	-5	1366.5	-6	0.4	-98	43.8	-12	0.1	4.4	9.7	17	1.7
BISYS GROUP BSG (6)	233.1	11	919.7	18	28.7	9	116.0	18	12.3	12.6	16.4	16	0.94
BLOCK (H&R) HRB (8)	471.4	26	3517.6	16	-37.3	NM	446.3	40	NM	NM	40.5	16	2.3
CAREER EDUCATION CECO	219.7	42	751.0	42	31.0	61	67.5	76	14.1	12.4	16.6	33	1.4
CENDANT CD	3849.0	54	14088.0	64	247.0	NM	1081.0	216	6.4	NM	11.6	10	1.06
CERIDIAN CEN	314.5	4	1192.7	0	28.8	26	93.7	89	9.2	7.5	8.3	23	0.6
CERTEGY CEY	263.3	3	1008.0	8	29.0	9	90.0	3	11.0	10.4	42.6	19	1.3
CINTAS CTAS (7)	681.0	22	2496.0	12	63.3	9	244.7	7	9.3	10.4	15.8	28	1.4
CONVERGYS CVG	564.8	-4	2286.2	-1	-28.4	NM	145.9	5	NM	9.5	13.0	14	0.88
DELUXE DLX	306.8	-4	1248.0	-2	52.3	9	214.3	15	17.0	15.1	333.2	12	3.3
DONNELLEY (R.R.) DNY	1335.1	-6	4754.9	-10	48.1	NM	142.2	469	3.6	NM	16.7	16	1.2
DST SYSTEMS DST	604.6	3	2383.8	0	45.4	-12	209.0	-8	7.5	8.7	15.7	18	1.7
DUN & BRADSTREET DNB	356.1	6	1275.6	-2	64.3	19	143.4	-4	18.1	16.0	NM	18	1.8
EQUIFAX EFX	292.6	4	1109.3	-3	51.7	467	191.3	63	17.7	3.2	72.4	15	1.3
FIRST DATA FDC	2058.5**	18	7636.2	15	365.3	27	1250.7	43	17.7	16.5	31.8	21	1.62
FISERV FISV	668.9	16	2568.9	17	68.2	29	266.1	28	10.2	9.1	15.0	23	1.3
HARLAND (JOHN H.) JH	208.1	12	767.8	3	14.7	16	52.4	35	7.1	6.9	22.4	13	1.73
HEWITT ASSOCIATES HEW (3)	493.9	20	1833.1	19	14.8	-82	123.5	-46	3.0	19.9	21.0	NA	NA
HON INDUSTRIES HNI	447.9	5	1692.6	-6	28.2	21	91.4	23	6.3	5.4	14.1	17	1.55
KELLY SERVICES KELYA	1123.7	8	4323.5	2	7.3	914	18.6	12	0.7	0.1	3.0	40	0.5
LABOR READY LRW	222.6	4	862.7	-6	3.3	121	11.6	26	1.5	0.7	8.8	21	0.28
MANPOWER MAN	2838.1	12	10610.9	1	40.1	54	113.2	-9	1.4	1.0	11.3	22	1.4
MILLER (HERMAN) MLHR (7)	357.3	-10	1367.5	-27	11.8	NM	-8.8	NM	3.3	NM	-3.7	NM	-0.11

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-6	12 MONTHS' EARNINGS PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
PAYCHEX PAYX ⁽⁷⁾	616.6	28	2253.9	20	74.7	9	286.2	5	12.1	14.3	28.6	33	0.76
WITNEY BOWES PBI	1164.9	7	4409.8	7	18.2	-82	437.7	-15	1.6	9.2	51.4	18	1.81
REPUBLIC SERVICES RSG	605.3	7	2365.1	5	61.5	NM	239.6	91	10.2	NM	13.2	13	1.44
ROBERT HALF INTERNATIONAL RHI	478.6	-6	1905.0	-22	-7.1	NM	2.2	-98	NM	2.5	0.3	NM	0.01
LABRE HOLDINGS TSG	446.7**	6	2029.5	-4	0.9	NM	214.1	NM	0.2	NM	12.9	12	1.50
SPHERION SFN	526.5	-9	2116.1	-21	-274.2	NM	-273.3	NM	NM	NM	-67.7	NM	-4.60
STEELCASE SCS ⁽¹⁰⁾	646.7	-12	2609.5	-24	-31.1	NM	-88.1	NM	NM	0.7	-6.7	NM	-0.59
TOTAL SYSTEM SERVICES TSS	246.0	8	955.1	7	35.5	19	125.8	20	14.4	13.1	21.4	22	0.64
UNITED STATIONERS USTR	923.4	-1	3701.6	-6	1.4	-93	60.2	6	0.2	2.1	10.8	12	1.78
VIAD VVI	375.5	3	1647.0	-1	13.6	-46	113.8	123	3.6	6.9	15.7	21	1.01
VOLTA INFORMATION SCIENCES VOL ⁽²⁾	405.0	-9	1487.8	-23	4.8	-21	-3.9	NM	1.2	1.4	-1.7	NM	-0.26
WALLACE COMPUTER SERVICES WCS ⁽⁵⁾	384.9	-6	1522.1	-9	12.3	4	29.9	-38	3.2	2.9	6.6	37	0.71
WEST WSTC	215.7	6	820.7	5	12.2	-38	68.6	-9	5.6	9.7	12.5	15	1.01
8 TRANSPORTATION													
INDUSTRY GROUP COMPOSITE	52118.0	9	204257.1	-1	-1008.4	NM	-2217.3	NM	NM	NM	-3.7	NM	-0.47
A) AIR FREIGHT & LOGISTICS													
INDUSTRY COMPOSITE	18741.3	7	71243.5	4	1857.0	159	4402.8	63	9.9	4.1	20.4	21	2.55
AIRBORNE A8F	896.8	11	3343.7	4	12.2	457	14.8	NM	1.4	0.3	1.8	51	0.31
DNF CNF	1278.6	12	4762.1	-2	26.4	NM	114.2	NM	2.1	NM	13.6	16	1.96
EOEX FDX ⁽⁷⁾	5667.0	10	21547.0	7	245.0	0	759.0	29	4.3	4.8	11.0	21	2.50
FLUNT (J.B.) TRANSPORT SERVICES J8HT	597.7	9	2247.9	7	14.7	-19	51.8	57	2.5	3.3	9.0	21	1.33
ROBINSON (C.H.) WORLOWIDE CHRW	839.5	8	3294.5	7	24.3	18	96.3	15	2.9	2.7	22.6	27	1.12
RYDER SYSTEM R	1204.7	1	4776.3	-5	32.4	NM	112.6	502	2.7	0.0	10.2	12	1.80
UNITED PARCEL SERVICE UPS	8257.0	3	31272.0	3	1502.0	133	3254.0	34	18.2	8.1	29.7	21	2.87
B) AIRLINES													
INDUSTRY COMPOSITE	20002.5	14	81881.5	-7	-3821.8	NM	-9987.6	NM	NM	NM	NM	NM	-6.72
ALASKA AIR GROUP ALK	527.7	13	2224.1	3	-43.1	NM	-67.2	NM	NM	NM	-10.8	NM	-2.53
AMERICA WEST HOLDINGS AWA	522.3	31	2047.1	-1	-32.5	NM	-157.9	NM	NM	NM	NM	NM	-4.68
AMR AMR	4190.0	10	17299.0	-9	-529.0	NM	-2523.0	NM	NM	NM	NM	NM	-16.22
ATA HOLDINGS ATAH	311.0	26	1277.4	0	-55.1	NM	-169.3	NM	NM	NM	NM	NM	-14.94
CONTINENTAL AIRLINES CAL	2038.0	17	8402.0	-6	-109.0	NM	-451.0	NM	NM	NM	-40.1	NM	-7.02
DELTA AIR LINES DAL	3308.0	16	13305.0	-4	-363.0	NM	-1272.0	NM	NM	NM	NM	NM	-10.44
EXPRESSJET HOLDINGS XJT	284.0	26	1089.1	11	22.5	112	84.8	76	7.9	4.7	NM	8	1.38
NORTHWEST AIRLINES NWAC	2339.0	18	9489.0	-4	-488.0	NM	-798.0	NM	NM	NM	NM	NM	-9.32
SOUTHWEST AIRLINES LUV	1400.5	13	5485.8	-1	42.4	-33	241.0	-53	3.0	5.1	5.5	43	0.30
UAL UAL	3468.0	18	14286.0	-11	-1473.0	NM	-3212.0	NM	NM	NM	NM	NM	-53.55
US AIRWAYS GROUP UAWGQ	1614.0	3	6977.0	-16	-794.0	NM	-1663.0	NM	NM	NM	NM	NM	-24.45
C) MARINE													
INDUSTRY COMPOSITE	281.9	-21	1088.9	-8	13.5	-75	46.5	-60	4.8	15.0	6.4	23	1.13
ALEXANDER & BALOWIN ALEX	281.9**	-21	1088.9	-8	13.5	-75	46.5	-60	4.8	15.0	6.4	23	1.13
D) ROAD & RAIL													
INDUSTRY COMPOSITE	13092.3	7	50043.3	2	942.9	40	3321.0	28	7.2	5.5	9.6	13	2.24
ARKANSAS BEST ABFS	381.6	13	1422.3	-7	14.5	53	40.8	-2	3.8	2.8	11.5	16	1.60
BURLINGTON NORTHERN SANTA FE BNI	2301.0	0	8979.0	-2	202.0	14	760.0	3	8.8	7.7	9.6	13	2.00
CSX CSX	2060.0	3	8152.0	1	137.0	111	467.0	59	6.7	3.2	7.5	13	2.19
DOLLAR THRIFTY AUTOMOTIVE GROUP DTG	250.3	25	1133.2	8	-4.0	NM	46.8	238	NM	NM	9.4	10	1.88
LANOSTAR SYSTEM LSTR	394.0	13	1506.6	8	14.5	25	49.2	15	3.7	3.3	33.0	19	2.94
MORFOLK SOUTHERN NSC	1581.0	3	6270.0	2	129.0	12	460.0	27	8.2	7.5	7.1	16	1.18
ROADWAY ROAD	1074.1	26	3010.8	8	25.9	92	35.1	15	2.4	1.6	9.1	19	1.85
U.S. XPRESS ENTERPRISES XPRSA	229.4	14	862.3	8	0.5	NM	2.2	NM	0.2	NM	1.4	61	0.16
UNION PACIFIC UNP	3171.0	5	12491.0	4	378.0	37	1341.0	39	11.9	9.1	12.6	11	5.05
USFREIGHTWAYS USFC	580.7	8	2250.5	1	13.6	27	33.3	-33	2.3	2.0	2.8	22	1.22
WERNER ENTERPRISES WERN	352.4	10	1341.5	6	17.6	28	61.6	29	5.0	4.3	9.5	21	0.94
YELLOW YELL	716.8	19	2624.1	5	14.2	NM	24.0	126	2.0	NM	6.7	29	0.84
INFORMATION TECHNOLOGY													
CTOR COMPOSITE	162369.3	9	597530.9	-4	735.1	118	-12048.2	NM	0.5	0.2	-3.3	NM	-0.19
9 SOFTWARE & SERVICES													
INDUSTRY GROUP COMPOSITE	35301.8	4	132245.3	4	4082.0	64	9699.2	NM	11.6	7.3	8.7	48	0.50
A) INTERNET SOFTWARE & SERVICES													
INDUSTRY COMPOSITE	1181.2	25	4477.5	29	-8.3	NM	-4930.3	NM	NM	NM	-95.3	NM	-4.70
EARTHLINK ELNK	347.9	6	1357.4	9	-32.9	NM	-148.0	NM	NM	NM	-23.0	NM	-1.11
HOTELS.COM ROOM	272.6	92	945.4	76	17.7	269	72.1	459	6.5	3.4	11.6	35	1.23
VERISIGN VRSN	275.0	-3	1221.7	24	-39.4	NM	-4961.3	NM	NM	NM	NM	NM	-20.97
YAHOO YHOO	285.8	51	953.1	33	46.2	NM	106.9	NM	16.2	NM	4.7	NM	0.18
B) IT CONSULTING & SERVICES													
INDUSTRY COMPOSITE	15692.6	0	60701.9	1	646.7	32	2349.0	46	4.1	3.1	13.5	14	1.13
ACCENTURE ACN ⁽⁴⁾	2930.0	-2	11515.6	-1	126.9	55	290.1	NM	4.3	2.7	49.8	25	0.64



Safety Information: Adverse events possibly, probably or definitely related to use of AndroGel® in the controlled trial (n=154) across all dose levels reported in at least 2% of patients included lab test abnormal 5.8%, acne 5.2%, application site reaction 5.2%, prostate disorder 4.5%, headache 2.6%, and hypertension 2.6%.

• Adverse events possibly, probably or definitely related to use of AndroGel in a 1-year follow up (n=106) across all dose levels reported in at least 2% of patients included application site reaction 9.4%, prostate disorder 8.5%, acne 5.7%, and lab test abnormal 4.7%.

• Androgens are contraindicated in men with carcinoma of the breast, or known or suspected carcinoma of prostate. Geriatric patients treated with androgens may be at an increased risk for the development of prostatic hyperplasia and prostatic carcinoma.

• To minimize the potential transfer of testosterone to another person, patients should wash their hands immediately with soap and water after application of AndroGel. They should cover the application site(s) with clothing after the gel has dried.



UNIMED
PHARMACEUTICALS, INC.

A Solvay Pharmaceuticals, Inc. Company

©2002, Unimed Pharmaceuticals, Inc.

Please see brief summary of prescribing information.

Fatigued?

Depressed mood?

Low sex drive?

Could be your testosterone is running on empty.

An estimated 4-5 million American men have a medical condition called hypogonadism, or low testosterone.¹ These low testosterone levels can cause a number of different symptoms such as low sex drive, fatigue, depression, and even loss of height or strength. Your doctor can check your testosterone level with a simple blood test.



Fortunately you can replace testosterone with AndroGel® which delivers natural testosterone in a gel that you simply rub into your skin – no patches or injections. As it's absorbed through your skin, AndroGel treats hypogonadism by restoring your testosterone to its normal range.

1. www.fda.gov/fdac/departs/196_upd.html, accessed May 17, 2002

Ask your doctor if AndroGel is right for you.

For more information please visit:

www.androgel.com or call **1-800-241-1643**

AndroGel®
(testosterone gel) 1% CIII

Testosterone restored



AndroGel® (testosterone gel) 1% CIII

INDICATIONS AND USAGE

AndroGel® is indicated for replacement therapy in males for conditions associated with a deficiency or absence of endogenous testosterone:

1. Primary hypogonadism (congenital or acquired)—testicular failure due to cryptorchidism, bilateral torsion, orchitis, vanishing testis syndrome, orchiectomy, Klinefelter's syndrome, chemotherapy, or toxic damage from alcohol or heavy metals. These men usually have low serum testosterone levels and gonadotropins (FSH, LH) above the normal range.
2. Hypogonadotropic hypogonadism (congenital or acquired)—idiopathic gonadotropin or luteinizing hormone-releasing hormone (LHRH) deficiency or pituitary-hypothalamic injury from tumors, trauma, or radiation. These men have low testosterone serum levels but have gonadotropins in the normal or low range.

AndroGel® has not been clinically evaluated in males under 18 years of age.

CONTRAINDICATIONS

Androgens are contraindicated in men with carcinoma of the breast or known or suspected carcinoma of the prostate.

AndroGel® is not indicated for use in women, has not been evaluated in women, and must not be used in women.

Pregnant women should avoid skin contact with AndroGel® application sites in men. Testosterone may cause fetal harm. In the event that unwashed or unclothed skin to which AndroGel® has been applied does come in direct contact with the skin of a pregnant woman, the general area of contact on the woman should be washed with soap and water as soon as possible. *In vitro* studies show that residual testosterone is removed from the skin surface by washing with soap and water.

AndroGel® should not be used in patients with known hypersensitivity to any of its ingredients, including testosterone USP that is chemically synthesized from soy.

WARNINGS

1. Prolonged use of high doses of orally active 17-alpha-alkyl androgens (e.g., methyltestosterone) has been associated with serious hepatic adverse effects (peliosis hepatis, hepatic neoplasms, cholestatic hepatitis, and jaundice). Peliosis hepatis can be a life-threatening or fatal complication. Long-term therapy with testosterone enanthate, which elevates blood levels for prolonged periods, has produced multiple hepatic adenomas. Testosterone is not known to produce these adverse effects.
2. Geriatric patients treated with androgens may be at an increased risk for the development of prostatic hyperplasia and prostatic carcinoma.
3. Geriatric patients and other patients with clinical or demographic characteristics that are recognized to be associated with an increased risk of prostate cancer should be evaluated for the presence of prostate cancer prior to initiation of testosterone replacement therapy. In men receiving testosterone replacement therapy, surveillance for prostate cancer should be consistent with current practices for eugonadal men (see PRECAUTIONS: Carcinogenesis, Mutagenesis, Impairment of Fertility and Laboratory Tests).
4. Edema with or without congestive heart failure may be a serious complication in patients with preexisting cardiac, renal, or hepatic disease. In addition to discontinuation of the drug, diuretic therapy may be required.
5. Gynecomastia frequently develops and occasionally persists in patients being treated for hypogonadism.
6. The treatment of hypogonadal men with testosterone esters may potentiate sleep apnea in some patients, especially those with risk factors such as obesity or chronic lung diseases.

PRECAUTIONS

Transfer of testosterone to another person can occur when vigorous skin-to-skin contact is made with the application site (see Clinical Studies). The following precautions are recommended to minimize potential transfer of testosterone from AndroGel®-treated skin to another person:

- Patients should wash their hands immediately with soap and water after application of AndroGel®.
- Patients should cover the application site(s) with clothing after the gel has dried (e.g., a shirt).
- In the event that unwashed or unclothed skin to which AndroGel® has been applied does come in direct contact with the skin of another person, the general area of contact on the other person should be washed with soap and water as soon as possible. *In vitro* studies show that residual testosterone is removed from the skin surface by washing with soap and water.

Changes in body hair distribution, significant increase in acne, or other signs of virilization of the female partner should be brought to the attention of a physician.

General

The physician should instruct patients to report any of the following:

- Too frequent or persistent erections of the penis.
- Any nausea, vomiting, changes in skin color, or ankle swelling.
- Breathing disturbances, including those associated with sleep.

Information for Patients

Advise patients to carefully read the information brochure that accompanies each carton of 30 AndroGel® single-use packets.

- AndroGel® should not be applied once daily to the scrotum.
- AndroGel® should be applied once daily to clean, dry skin.
- After application of AndroGel®, it is currently unknown for how long showering or swimming should be delayed. For optimal absorption of testosterone, it appears reasonable to wait at least 5-6 hours after application prior to showering or swimming. Nevertheless, showering or swimming after just 1 hour should have a minimal effect on the amount of AndroGel® absorbed if done very infrequently.

Laboratory Tests

1. Hemoglobin and hematocrit levels should be checked periodically (to detect polycythemia) in patients on long-term androgen therapy.
2. Liver function, prostatic specific antigen, cholesterol, and high-density lipoprotein should be checked periodically.
3. To ensure proper dosing, serum testosterone concentrations should be measured (see DOSAGE AND ADMINISTRATION).

Drug Interactions

Oxyphenbutazone: Concurrent administration of oxyphenbutazone and androgens may result in elevated serum levels of oxyphenbutazone.

Insulin: In diabetic patients, the metabolic effects of androgens may decrease blood glucose and, therefore, insulin requirements.

Propranolol: In a published pharmacokinetic study of an injectable testosterone product, administration of testosterone cypionate led to an increased clearance of propranolol in the majority of men tested.

Corticosteroids: The concurrent administration of testosterone with ACTH or corticosteroids may enhance edema formation; thus, these drugs should be administered cautiously, particularly in patients with cardiac or hepatic disease.

Drug/Laboratory Test Interactions

Androgens may decrease levels of thyroxine-binding globulin, resulting in decreased total T4 serum levels and increased resin uptake of T3 and T4. Free thyroid hormone levels remain unchanged, however, and there is no clinical evidence of thyroid dysfunction.

Carcinogenesis, Mutagenesis, Impairment of Fertility

Animal Data: Testosterone has been tested by subcutaneous injection and implantation in mice and rats. In mice, the implant induced cervical-uterine tumors, which metastasized in some cases. There is suggestive evidence that injection of testosterone into some strains of female mice increases their susceptibility to hepatoma. Testosterone is also known to increase the number of tumors and decrease the degree of differentiation of chemically induced carcinomas of the liver in rats.

Human Data: There are rare reports of hepatocellular carcinoma in patients receiving long-term oral therapy with androgens in high doses. Withdrawal of the drugs did not lead to regression of the tumors in all cases.

Geriatric patients treated with androgens may be at an increased risk for the development of prostatic hyperplasia and prostatic carcinoma.

Geriatric patients and other patients with clinical or demographic characteristics that are recognized to be associated with an increased risk of prostate cancer should be evaluated for the presence of prostate cancer prior to initiation of testosterone replacement therapy.

In men receiving testosterone replacement therapy, surveillance for prostate cancer should be consistent with current practices for eugonadal men.

Pregnancy Category X (see Contraindications)—Teratogenic Effects: AndroGel® is not indicated for women and must not be used in women.

Nursing Mothers: AndroGel® is not indicated for women and must not be used in women.

Pediatric Use: Safety and efficacy of AndroGel® in pediatric patients have not been established.

ADVERSE REACTIONS

In a controlled clinical study, 154 patients were treated with AndroGel® for up to 6 months. Adverse events possibly, probably or definitely related to the use of AndroGel® and reported by ≥1% of the patients are listed in Table 1.

Table 1. Adverse Events Possibly, Probably or Definitely Related to Use of AndroGel® in the Controlled Clinical Trial

Adverse Event	5 g	7.5 g	10 g
Acne	1%	3%	8%
Alopecia	1%	0%	1%
Application Site Reaction	5%	3%	4%
Asthenia	0%	3%	1%
Depression	1%	0%	1%
Emotional Lability	0%	3%	3%
Gynecomastia	1%	0%	3%
Headache	4%	3%	0%
Hypertension	3%	0%	3%
Lab Test Abnormal*	6%	5%	3%
Libido Decreased	0%	3%	1%
Nervousness	0%	3%	1%
Pain Breast	1%	3%	1%
Prostate Disorder**	3%	3%	5%
Testis Disorder	3%	0%	0%

*Lab test abnormal occurred in nine patients with one or more of the following events: elevated hemoglobin or hematocrit, hyperlipidemia, elevated triglycerides, hypokalemia, decreased HDL, elevated glucose, elevated creatinine, or elevated total bilirubin.

**Prostate disorders included five patients with enlarged prostate, one patient with BPH, and one patient with elevated PSA results.

AndroGel® occurred in fewer than 1% of patients: anorexia, anxiety, discolored hair, dizziness, dry skin, hirsutism, host, impaired urination, paresthesia, penis disorder, peripheral edema, sweating, and vasodilation.

In this clinical trial of AndroGel®, skin reactions at the site of application were occasionally reported with AndroGel®, but none was severe enough to require treatment or discontinuation of drug.

Six (4%) patients in this trial had adverse events that led to discontinuation of AndroGel®. These events included the following: cerebral hemorrhage, convulsion (neither of which were considered related to AndroGel® administration), depression, sadness, memory loss, elevated prostate specific antigen and hypertension. No AndroGel® patients discontinued due to skin reactions.

In an uncontrolled pharmacokinetic study of 10 patients, there had adverse events associated with AndroGel®; these were asthenia and depression in one patient and increased libido and hyperkinesia in the other. Among 17 patients in foreign clinical studies there was one instance each of acne, erythema and benign prostate adenoma associated with a 2.5% testosterone gel formulation applied dermally.

One hundred six (106) patients have received AndroGel® for up to 12 months in a long-term follow-up study for patients who completed the controlled clinical trial. The preliminary safety results from this study are consistent with those reported for the controlled clinical trial. Table 2 summarizes those adverse events possibly, probably or definitely related to the use of AndroGel® and reported by at least 1% of the total number of patients during long-term exposure to AndroGel®.

Table 2. Incidence of Adverse Events Possibly, Probably or Definitely Related to the Use of AndroGel® in the Long-Term, Follow-up Study

Adverse Event	Dose of AndroGel®		
	5 g	7.5 g	10 g
Lab Test Abnormal*	4.2%	0.0%	6.3%
Peripheral Edema	1.4%	0.0%	3.1%
Acne	2.8%	0.0%	12.5%
Application Site Reaction	9.7%	10.0%	3.1%
Prostate Disorder**	2.8%	5.0%	18.8%
Urination Impaired	2.8%	0.0%	0.0%

*Lab test abnormal included one patient each with elevated GGT, elevated hematocrit and hemoglobin, increased total bilirubin, worsened hyperlipidemia, decreased HDL, and hypokalemia.

**Prostate disorders included enlarged prostate, elevated PSA results, and in one patient, a new diagnosis of prostate cancer; three patients (one taking 7.5 g daily and two taking 10 g daily) discontinued AndroGel® treatment during the long-term study because of such disorders.

DRUG ABUSE AND DEPENDENCE

AndroGel® contains testosterone, a Schedule III controlled substance as defined by the Anabolic Steroids Control Act.

Oral ingestion of AndroGel® will not result in clinically significant serum testosterone concentrations due to extensive first-pass metabolism.

OVERDOSAGE

There is one report of acute overdosage by injection of testosterone enanthate: testosterone levels of up to 11,400 ng/dL were implicated in a cerebrovascular accident.

DOSAGE AND ADMINISTRATION

The recommended starting dose of AndroGel® 1% is 5 g delivering 5 mg of testosterone systemically, applied once daily (preferably in the morning) to clean, dry, intact skin of the shoulders and upper arms and/or abdomen. Upon opening the packet(s), the entire contents should be squeezed into the palm of the hand and immediately applied to the application sites. Application sites should be allowed to dry for a few minutes prior to dressing. Hands should be washed with soap and water after AndroGel® has been applied.

Do not apply AndroGel® to the genitals.

Serum testosterone levels should be measured approximately 14 days after initiation of therapy to ensure proper dosing. If the serum testosterone concentration is below the normal range, or if the desired clinical response is not achieved, the daily AndroGel® 1% dose may be increased from 5 g to 7.5 g and from 7.5 g to 10 g as instructed by the physician.

Rx Only

Manufactured by Laboratoires Besins Iscovesco
Montrouge, France

For:

Unimed Pharmaceuticals, Inc.
A Solvay Pharmaceuticals, Inc. Company
Deerfield, IL 60015-2544, USA



A Solvay Pharmaceuticals, Inc. Company

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-6	12 MONTHS' EARNINGS PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
ACXIOM ACXM ⁽⁹⁾	258.0	17	944.1	7	19.5	73	60.2	NM	7.6	5.1	10.1	22	0.65
AFFILIATED COMPUTER SERVICES ACS ⁽⁶⁾	929.2	24	3484.5	40	74.0	33	273.6	60	8.0	7.4	12.2	24	1.98
BEARINGPOINT BE ⁽⁶⁾	807.9	36	2721.0	2	16.4	149	55.7	-31	2.0	1.1	5.2	22	0.33
COMPUCOM SYSTEMS CMPC	403.9	10	1571.1	-13	5.5	231	18.3	175	1.4	0.5	7.4	12	0.34
COMPUTER SCIENCES CSC ⁽⁹⁾	2793.6	-3	11313.6	1	105.7	21	418.6	153	3.8	3.0	10.3	14	2.43
ELECTRONIC DATA SYSTEMS EDS	5507.0	-5	21502.0	2	248.0	-38	1007.0	-26	4.5	6.9	14.3	8	2.06
GARTNER IT.B	229.8	-8	887.6	-7	-14.4	NM	15.1	NM	NM	7.6	NM	45	0.18
MPS GROUP MPS	280.4	-14	1155.0	-25	-24.0	NM	-12.6	NM	NM	NM	-1.6	NM	-0.12
UNISYS UIS	1552.8	0	5607.4	-7	89.1	NM	223.0	NM	5.7	NM	26.1	13	0.69
(C) SOFTWARE													
INDUSTRY COMPOSITE	18428.0	7	67065.9	6	3443.6	39	12280.5	80	18.7	14.4	13.8	33	0.77
ACTIVISION ATVI ⁽⁹⁾	378.7	2	904.0	21	44.3	13	85.0	101	11.7	10.5	11.1	12	1.23
ADOBE SYSTEMS ADBE ⁽¹¹⁾	294.7	11	1164.8	-5	40.1	17	191.4	-7	13.6	13.0	28.4	34	0.79
BEA SYSTEMS BEAS ⁽¹¹⁾	234.0	7	916.1	-8	24.7	NM	59.4	NM	10.6	NM	8.1	71	0.15
BMC SOFTWARE BMC ⁽⁹⁾	349.6	9	1277.8	-8	12.1	NM	25.6	NM	3.5	NM	1.8	NM	0.10
CAEDENCE DESIGN SYSTEMS CDN	276.3	-27	1293.1	-10	88.7	128	71.9	-49	32.1	10.3	4.3	36	0.27
COMPUTER ASSOCIATES INTERNATIONAL CA ⁽⁹⁾	778.0	4	3087.0	6	-44.0	NM	-399.0	NM	NM	NM	-9.0	NM	-0.69
COMPUWARE CPWR ⁽⁹⁾	333.1	-27	1444.9	-22	25.4	-15	-254.2	NM	7.6	6.6	-19.7	NM	-0.68
EDWARDS (I.O.) JDEC ⁽²⁾	247.2	3	904.5	1	37.3	107	46.2	NM	15.1	7.5	10.5	32	0.38
ELECTRONIC ARTS ERTS ⁽⁹⁾	1233.7	48	2488.8	59	250.2	89	355.2	877	20.3	15.9	20.8	21	2.35
INTUIT INTU ⁽⁵⁾	223.3	32	1412.9	23	-60.2	NM	111.7	NM	NM	NM	5.8	85	0.49
MICROSOFT MSFT ⁽⁶⁾	8541.0	10	30785.0	15	2552.0	12	9541.0	57	29.9	29.5	17.1	27	1.74
NETWORK ASSOCIATES NET	256.0	-1	941.9	16	44.2	NM	90.2	NM	17.3	NM	11.0	26	0.57
NOVELL NOVL ⁽²⁾	300.3	-5	1134.3	8	-91.7	NM	-103.1	NM	NM	NM	-9.7	NM	-0.28
ORACLE ORCL ⁽⁷⁾	2309.0	-3	9364.0	-12	535.0	-3	2042.0	-18	23.2	23.1	38.5	31	0.37
PEOPLESFT PSFT	512.3	-5	1948.9	-8	57.4	-1	182.6	-5	11.2	10.7	9.3	33	0.57
REYNOLDS & REYNOLDS REY ⁽³⁾	246.6	3	998.9	1	28.2	11	118.4	19	11.5	10.6	26.0	15	1.63
SIEBEL SYSTEMS SEBL	394.7	-19	1635.3	-22	-38.0	NM	-35.7	NM	NM	13.5	-1.8	NM	-0.08
SYBASE SY	210.6	-11	829.9	-11	-9.8	NM	37.8	NM	NM	2.6	6.5	37	0.38
SYMANTEC SYMC ⁽⁹⁾	375.6	29	1327.7	31	71.7	NM	185.1	NM	19.1	0.0	11.5	40	1.16
SYNOPSIS SNPS ⁽²⁾	309.3	68	906.5	33	-97.8	NM	-200.0	NM	NM	11.1	-18.0	NM	-2.99
TAKE-TWO INTERACTIVE SOFTWARE TTWO ⁽²⁾	218.3	79	794.0	77	22.3	NM	71.6	NM	10.2	NM	20.1	11	1.81
VERITAS SOFTWARE VRTS	405.7	8	1505.6	1	-48.7	NM	57.4	NM	NM	NM	2.0	NM	0.14
20 TECHNOLOGY HARDWARE & EQUIPMENT													
INDUSTRY GROUP COMPOSITE	127067.5	10	465285.6	-6	-3346.9	NM	-21747.4	NM	NM	NM	-8.5	NM	-0.43
(A) COMMUNICATIONS EQUIPMENT													
INDUSTRY COMPOSITE	19634.2	-6	77156.6	-21	-870.2	NM	-14946.5	NM	NM	NM	-27.7	NM	-0.92
AOC TELECOMMUNICATIONS ADCT ⁽²⁾	220.7	-44	1047.7	-56	-381.8	NM	-1145.0	NM	NM	NM	NM	NM	-1.44
ANDREW ANDW ⁽³⁾	254.5	27	919.4	2	6.6	-62	-0.5	NM	2.6	8.8	-0.1	NM	0.01
AVAYA AV ⁽³⁾	1066.8	-18	4716.8	-25	-37.6	NM	-683.6	NM	NM	NM	NM	NM	-2.34
CISCO SYSTEMS CSCO ⁽⁵⁾	4845.0	9	19312.0	-5	618.0	NM	2779.0	NM	12.8	NM	9.7	36	0.37
CORNING GLW	736.0**	-20	3164.0	-48	-1139.0	NM	-1780.0	NM	NM	NM	-42.1	NM	-1.85
HARRIS HRS ⁽⁶⁾	523.9	16	1955.0	3	16.3	-1	85.3	16	3.1	3.6	7.3	23	1.29
LUCENT TECHNOLOGIES LU ⁽³⁾	2075.0	-42	10817.0	-47	-264.0	NM	-11667.0	NM	NM	NM	NM	NM	-3.48
MOTOROLA MOT	7546.0	3	26679.0	-11	174.0	NM	-2485.0	NM	2.3	NM	-22.1	NM	-1.09
QUALCOMM QCOM ⁽³⁾	1097.2	57	3438.1	26	241.3	73	461.8	NM	22.0	19.9	7.8	65	0.56
SCIENTIFIC-ATLANTA SFA ⁽⁶⁾	352.0	-16	1506.4	-29	15.1	-61	54.2	-76	4.3	9.4	3.8	34	0.35
TELLABS TLAB	312.8	-33	1317.0	-40	-84.5	NM	-313.1	NM	NM	NM	-13.7	NM	-0.77
3COM COMS ⁽⁷⁾	303.2	-23	1302.4	-31	-68.5	NM	-360.4	NM	NM	NM	-20.0	NM	-1.02
UTSTARCOM UTSI	301.1	53	981.8	57	33.9	105	107.9	89	11.2	8.4	14.1	20	0.94
(B) COMPUTERS & PERIPHERALS													
INDUSTRY COMPOSITE	64217.4	19	222206.1	2	768.3	-71	3706.7	-49	1.2	4.9	4.1	83	0.24
APPLE COMPUTER AAPL ⁽³⁾	1472.0	7	5839.0	2	-6.0	NM	21.0	-90	NM	2.8	0.5	NM	0.05
DELL COMPUTER DELL ⁽¹¹⁾	9144.0	22	33730.0	6	561.0	31	1975.0	61	6.1	5.7	42.5	32	0.74
EMC EMC	1489.4	-2	5438.4	-23	-63.9	NM	-118.7	NM	NM	NM	-1.6	NM	-0.05
GATEWAY GTW	1056.4	-7	4171.3	-31	-69.2	NM	-297.7	NM	NM	0.4	-24.8	NM	-0.95
HEWLETT-PACKARD HPQ ⁽²⁾	18048.0	66	56588.0	25	390.0	364	-923.0	NM	2.2	0.8	-2.5	NM	-0.37
IMATION IMN	270.9	-10	1066.7	-5	21.0	NM	73.2	NM	7.8	NM	9.9	17	2.05
INTERNATIONAL BUSINESS MACHINES IBM	23684.0	7	81186.0	-2	1911.0	-25	5334.0	-35	8.1	11.6	23.4	25	3.07
LEXMARK INTERNATIONAL LXX	1207.3	6	4356.4	6	116.3	216	366.7	34	9.6	3.2	33.9	21	2.79
MAXTOR MXO	1038.3	-3	3779.5	0	3.6	NM	-260.6	NM	0.3	NM	-44.0	NM	-1.09
NCR NCR	1581.0	-1	5585.0	-6	57.0	-20	128.0	-42	3.6	4.4	9.7	15	1.27
NETWORK APPLIANCE NTAP ⁽⁸⁾	215.2	11	825.2	-9	15.8	NM	46.7	105	7.3	NM	5.2	81	0.13
PALM PALM ⁽⁷⁾	264.9	-9	963.1	-16	3.5	NM	-279.8	NM	1.3	NM	-63.8	NM	-9.60
QUANTUM DSS ⁽⁹⁾	228.8	-15	878.3	-21	-5.9	NM	-147.3	NM	NM	2.4	-42.6	NM	-0.93
SILICON GRAPHICS SGI ⁽⁶⁾ †	262.7	-28	1102.6	-35	-17.0	NM	-84.4	NM	NM	13.6	NM	NM	-0.42
STORAGE TECHNOLOGY STK	590.1	4	2039.6	0	61.1	53	110.0	64	10.4	7.1	9.5	22	1.02
SUN MICROSYSTEMS SUNW ⁽⁶⁾	2915.0	-6	12189.0	-13	-2283.0	NM	-2370.0	NM	NM	NM	-32.6	NM	-0.74
WESTERN DIGITAL WDC ⁽⁶⁾	749.5	30	2467.9	24	73.0	373	133.5	NM	9.7	2.7	63.6	12	0.67

COMPANY SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-6	12 MONTH EARNIN PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
(C) ELECTRONIC EQUIPMENT & INSTRUMENTS													
INDUSTRY COMPOSITE	20174.7	8	77435.2	-6	-101.2	NM	-5862.1	NM	NM	NM	-20.8	NM	-1.8
AGILENT TECHNOLOGIES A (2)	1736.0	8	6010.0	-28	-235.0	NM	-1022.0	NM	NM	NM	-22.1	NM	-2.2
AMPHENOL APH	267.0	3	1062.0	-4	22.5	40	80.3	-4	8.4	6.2	48.1	22	1.8
ANIXTER INTERNATIONAL AXE	661.8	0	2520.1	-20	10.4	82	43.5	29	1.6	0.9	6.9	20	1.1
AVNET AVT (6)	2346.7	-1	8879.8	-16	-58.7	NM	-121.8	NM	NM	NM	-6.9	NM	-1.0
AVX AVX (9)	282.6	-7	1148.0	-27	-0.7	NM	-0.5	NM	NM	NM	0.0	NM	0.0
BENCHMARK ELECTRONICS BHE	468.2	74	1630.0	28	12.7	NM	35.9	NM	2.7	NM	7.2	23	1.5
DIEBOLD DBD	525.8	3	1940.2	10	21.9	27	132.3	98	4.2	3.4	14.1	20	1.8
GTSI GTSI	280.1	0	934.7	19	5.1	1	9.5	113	1.8	1.8	12.6	9	1.0
JABIL CIRCUIT JBL (4)	1068.2	21	3729.1	-9	8.4	0	34.7	-56	0.8	0.9	2.3	87	0.1
METTLER-TOLEDO INTERNATIONAL MTD	337.2	6	1213.7	6	31.3	2	100.4	39	9.3	9.6	21.1	14	2.2
MOLEX MOLX (6)	454.6	9	1788.4	-9	28.2	561	105.2	4	6.2	1.0	5.6	39	0.5
PERKINELMER PKI	409.6	1	1505.0	-1	0.7	NM	-4.1	NM	0.2	NM	-0.3	NM	-0.0
PIONEER-STANDARD ELECTRONICS PIOS (9)	567.7	-10	2047.7	-19	1.9	-15	-2.9	NM	0.3	0.4	-1.0	NM	-0.1
SANMINA-SCI SANM (3)	2537.0	124	10168.1	175	-7.5	NM	-2659.0	NM	NM	NM	-77.8	NM	-5.2
SCANSOURCE SCSC (6)	250.1	20	955.9	32	5.8	43	22.3	29	2.3	2.0	17.9	11	1.7
SOLETRON SLR (4)	3136.6	0	12260.6	-24	-70.9	NM	-3128.6	NM	NM	NM	-66.3	NM	-3.8
TECH DATA TECD (11)	3810.7	-10	15892.8	-13	32.8	15	139.7	10	0.9	0.7	9.1	10	2.4
TELEDYNE TECHNOLOGIES TDY	209.6	13	772.7	4	7.2	11	25.4	274	3.4	3.5	14.4	18	0.7
THERMO ELECTRON TMO	568.7	2	2086.4	-5	42.5	NM	195.3	294	7.5	NM	10.0	16	1.1
WATERS WAT	256.4	3	890.0	4	40.2	NM	152.2	33	15.7	NM	22.9	20	1.1
(D) OFFICE ELECTRONICS													
INDUSTRY COMPOSITE	5383.0	-4	20603.0	-7	51.5	NM	304.2	NM	1.0	NM	7.2	35	0.24
IKON OFFICE SOLUTIONS IKN (3)	1137.0	-6	4754.0	-8	32.5	0	150.2	394	2.9	2.7	9.6	8	0.9
XEROX XRX	4246.0	-3	15849.0	-7	19.0	NM	154.0	NM	0.4	NM	5.2	87	0.10
(E) SEMICONDUCTOR EQUIPMENT & PRODUCTS													
INDUSTRY COMPOSITE	17658.2	8	67884.7	-7	-3195.3	NM	-4949.7	NM	NM	NM	-5.9	NM	-0.28
ADVANCED MICRO DEVICES AMD	686.4	-28	2697.0	-31	-854.7	NM	-1303.0	NM	NM	NM	-52.8	NM	-3.81
AGERE SYSTEMS AGR.A (3)	436.0	-2	2076.0	-34	-148.0	NM	-1584.0	NM	NM	NM	NM	NM	-0.97
AMKOR TECHNOLOGY AMKR	426.3	21	1639.7	8	-196.1	NM	-826.8	NM	NM	NM	NM	NM	-5.04
ANALOG DEVICES ADI (2)	455.7	8	1707.5	-25	34.8	44	105.3	-70	7.6	5.7	3.6	82	0.28
APPLIED MATERIALS AMAT (2)	1445.7	14	5062.3	-31	147.2	NM	269.0	-65	10.2	NM	3.4	26	0.46
ATMEL ATML	304.6	7	1193.8	-19	-16.2	NM	-641.8	NM	NM	NM	-66.2	NM	-1.37
BROADCOM BRCM	295.9	30	1082.9	13	-1757.8	NM	-2236.6	NM	NM	NM	NM	NM	-8.35
FAIRCHILD SEMICONDUCTOR INTL. FCS	353.9	9	1411.9	0	3.5	NM	-2.5	NM	1.0	NM	-0.2	NM	-0.02
INTEL INTC	7160.0	3	26764.0	1	1049.0	108	3117.0	141	14.7	7.2	8.8	33	0.46
INTERNATIONAL RECTIFIER IRF (6)	209.5	22	801.3	0	-121.3	NM	-82.0	NM	NM	6.3	-8.5	NM	-1.29
KLA-TENCOR KLAC (6)	334.9	-17	1440.7	-32	29.2	-40	161.1	-60	8.7	12.1	7.7	39	0.82
LSI LOGIC LSI	479.7	18	1816.9	2	-30.8	NM	-292.4	NM	NM	NM	-12.7	NM	-0.79
MAXIM INTEGRATED PRODUCTS MXIM (6)	286.1	16	1110.5	-8	77.1	23	285.6	31	26.9	25.3	15.0	37	0.83
MICRON TECHNOLOGY MU (4)	685.1	62	2850.2	2	-315.9	NM	-957.0	NM	NM	NM	-16.0	NM	-1.58
NATIONAL SEMICONDUCTOR NSM (7)	422.3	15	1631.9	3	6.2	NM	-13.2	NM	1.5	NM	-0.7	NM	-0.07
NOVELLUS SYSTEMS NVLS	217.6	9	840.0	-37	3.0	-83	22.9	-84	1.4	8.6	1.1	NM	0.15
NVIDIA NVDA (11)	430.3	18	1944.2	79	-48.6	NM	115.9	-13	NM	11.3	12.8	15	0.67
ON SEMICONDUCTOR ONNN	265.7	0	1084.5	-11	-39.6	NM	-135.4	NM	NM	NM	NM	NM	-0.82
TERADYNE TER	333.6	51	1222.2	-15	-423.8	NM	-718.5	NM	NM	NM	-69.9	NM	-3.93
TEXAS INSTRUMENTS TXN	2146.0	20	8383.0	2	-589.0	NM	-344.0	NM	NM	NM	-3.2	NM	-0.20
XILINX XLNX (9)	282.7	24	1124.0	-2	-3.4	NM	110.6	NM	NM	4.2	5.8	60	0.32

MATERIALS

SECTOR COMPOSITE	87622.2	7	352259.8	1	-1826.1	NM	4738.0	33	NM	1.7	3.8	53	0.45
------------------	---------	---	----------	---	---------	----	--------	----	----	-----	-----	----	------

21 MATERIALS

INDUSTRY GROUP COMPOSITE	87622.2	7	352259.8	1	-1826.1	NM	4738.0	33	NM	1.7	3.8	53	0.45
--------------------------	---------	---	----------	---	---------	----	--------	----	----	-----	-----	----	------

(A) CHEMICALS

INDUSTRY COMPOSITE	34110.5	8	137044.5	0	-61.2	NM	3884.4	-29	NM	12.6	7.8	34	0.80
AIR PRODUCTS & CHEMICALS APD ⁽³⁾	1447.0	10	5531.7	-3	128.7	13	540.4	22	8.9	8.6	15.6	17	2.43
AIRGAS ARG ⁽⁹⁾	435.3	11	1760.0	8	16.7	41	58.7	32	3.8	3.0	10.3	21	0.81
ALBEMARLE ALB	247.2	3	980.2	7	16.9	20	74.7	10	6.8	5.9	13.1	15	1.73
CABOT CBT ⁽³⁾	408.0	8	1588.0	-4	33.0	-13	100.0	-24	8.1	10.1	10.2	17	1.43
CROMPTON CK	587.6	-3	2546.9	-6	2.4	NM	15.5	NM	0.4	NM	7.7	45	0.13
CYTEC INDUSTRIES CYT	344.4	9	1346.2	-3	19.4	185	79.3	20	5.6	2.2	12.7	16	1.96
DOW CHEMICAL DOW	6914.0**	9	27434.0	-1	-809.0	NM	-405.0	NM	NM	NM	-5.3	NM	-0.44
DUPONT DD	5861.0**	10	24522.0	-3	350.0	-91	1841.0	-57	6.0	73.2	16.2	20	1.84
EASTMAN CHEMICAL EMN	1315.0**	3	5320.0	-1	-13.0	NM	79.0	NM	NM	NM	6.1	33	1.02
ENGELHARD EC	910.9	5	3753.6	-26	56.1	-7	171.4	-24	6.2	6.9	15.9	16	1.31
FERRO FOE	366.2	5	1528.5	23	7.1	144	33.7	12	1.9	0.8	13.6	28	0.81



401(k)

Would you like that rolled over easy?

You've worked hard to build your nest egg. Are you sure you want to leave it behind in your former employer's retirement plan? With the T. Rowe Price Rollover Advantage service, it's easy to take more control of your retirement savings.

Call one of our Rollover Specialists to open your account right over the phone. They can help you choose a T. Rowe Price fund, or you can pick from over 1,000 other funds*—all with no loads, no sales charges, and no commissions. They can even work with your former employer to help coordinate the rollover process. In fact, our Rollover Specialists handle just about all the IRA paperwork and will mail you the completed forms to sign.

It's never been easier to roll over your nest egg. To open your account, call us or visit our Web site and have your old 401(k) statement in hand.

TROWEPRICE.COM/ROLLOVERADVANTAGE

1-888-724-8324

T. Rowe Price 
INVEST WITH CONFIDENCE

*This service is offered by T. Rowe Price Investment Services, Inc., member NASD/SIPC. Please call to request a prospectus with more complete information, including fees, risks, and expenses; please read it carefully before investing.

ROA066308

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-6	12 MONTHS EARNING PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
FMC FMC	459.7	-6	1852.9	-5	12.7	NM	69.1	NM	2.8	NM	16.9	9	2.01
FULLER (H.B.) FUL ⁽¹⁾	329.6	2	1256.2	-1	10.4	-20	28.2	-37	3.1	4.0	6.2	25	0.98
GEORGIA GULF GGC	318.8	37	1230.8	2	9.7	NM	31.2	NM	3.0	NM	24.8	22	0.97
GRACE (W.R.) GRA	453.4	6	1817.2	5	-25.5	NM	22.1	-72	NM	4.9	NM	8	0.34
GREAT LAKES CHEMICAL GLK	327.4	16	1401.5	4	7.1	NM	48.0	NM	2.2	NM	6.4	23	0.95
IMC GLOBAL IGL	481.0	-9	2057.4	5	-8.4	NM	11.5	NM	NM	NM	2.8	91	0.10
INTERNATIONAL FLAVORS & FRAGRANCES IFF	424.3	1	1809.2	-2	39.0	34	175.9	52	9.2	7.0	30.6	18	1.84
LUBRIZOL LZ	497.7	13	1983.9	8	25.5	23	126.3	34	5.1	4.7	14.5	12	2.44
LYONDELL CHEMICAL LYO	890.0	26	3262.0	2	-85.0	NM	-133.0	NM	NM	NM	-11.3	NM	-0.99
MILLENNIUM CHEMICALS MCH	387.0	16	1554.0	-2	45.0	650	-21.0	NM	11.6	1.8	4.7	33	0.33
MONSANTO MON	1220.0	1	4673.0	-14	61.0	NM	129.0	-57	5.0	NM	2.5	33	0.49
NL INDUSTRIES NL	211.9	16	875.2	5	7.6	-81	36.8	-70	3.6	22.5	9.0	23	0.76
OLIN OLN	351.7	26	1301.3	2	-12.0	NM	-31.3	NM	NM	0.3	-13.5	NM	-0.63
OM GROUP OMG	1196.6	14	4909.4	119	-185.0	NM	-198.3	NM	NM	2.2	-40.9	NM	-7.07
POLYONE POL	580.3	1	2498.2	-3	-17.6	NM	-6.6	NM	NM	NM	-0.9	NM	-0.07
PPG INDUSTRIES PPG	1990.0	4	8067.0	-1	94.0	13	-60.0	NM	4.7	4.4	-2.8	NM	-0.36
PRAXAIR PX	1297.0	5	5128.0	-1	140.0	19	548.0	27	10.8	9.5	23.4	16	3.33
ROHM & HAAS ROH	1435.0	7	5727.0	1	-36.0	NM	218.0	NM	NM	2.8	7.0	31	0.98
RPM INTERNATIONAL RPM ⁽⁷⁾	518.0	6	2025.4	3	29.6	21	114.3	46	5.7	5.0	12.5	10	1.00
SCHULMAN (A.) SHLM ⁽⁴⁾	266.9	12	995.3	4	8.3	60	35.3	89	3.1	2.2	9.7	13	1.18
SOLUTIA SOI	562.0	8	2241.0	-1	-17.0	NM	-8.0	NM	NM	NM	NM	NM	-0.08
SPARTECH SEH ⁽²⁾	237.2	10	898.3	-4	8.8	35	34.3	15	3.7	3.0	12.0	15	1.21
TERRA INDUSTRIES TRA	271.7	18	1042.4	1	-16.7	NM	-36.2	NM	NM	NM	-14.0	NM	-0.48
VALSPAR VAL ⁽²⁾	566.8	8	2126.9	11	34.9	NM	120.1	133	6.2	0.5	16.3	18	2.34
(B) CONSTRUCTION MATERIALS													
INDUSTRY COMPOSITE	2199.5	-7	9050.6	-3	121.2	-28	586.8	2	5.5	7.1	10.3	12	2.37
LAFARGE NORTH AMERICA LAF	811.1	-5	3251.6	-2	71.8	-12	268.4	15	8.9	9.6	12.4	8	3.64
MARTIN MARIETTA MATERIALS MLM	400.8	-9	1692.4	-1	16.1	-36	97.8	-7	4.0	5.7	9.0	14	2.00
TEXAS INDUSTRIES TXI ⁽⁷⁾	311.6**	-10	1310.1	0	-3.3	NM	30.3	147	NM	4.8	4.0	17	1.34
VULCAN MATERIALS VMC	676.0	-7	2796.6	-7	36.6	-19	190.4	-14	5.4	6.2	11.2	17	1.86
(C) CONTAINERS & PACKAGING													
INDUSTRY COMPOSITE	12244.9	5	48876.5	2	-469.6	NM	500.1	64	NM	NM	3.1	61	0.32
BALL BLL	910.2	8	3858.9	5	31.9	294	159.3	NM	3.5	1.0	32.3	19	2.77
BEMIS BMS	630.6	13	2369.0	3	43.3	11	165.5	18	6.9	7.0	17.3	14	3.08
CARAUSTAR INDUSTRIES CSAR	252.0	18	936.8	4	-13.3	NM	-17.9	NM	NM	NM	-7.4	NM	-0.64
CHESAPEAKE CSK	240.3	19	822.2	4	11.4	104	20.5	95	4.7	2.8	4.3	11	1.35
CROWN CORK & SEAL CCK	1544.0	-7	6792.0	-5	-272.0	NM	-191.0	NM	NM	NM	-90.1	NM	-1.33
GREIF BROS. GEF ⁽²⁾	435.5	-2	1632.8	12	12.3	-14	31.0	-65	2.8	3.2	5.4	14	1.38
LONGVIEW FIBRE LFB ⁽²⁾	215.3	-3	769.3	-12	7.9	197	5.1	-79	3.7	1.2	1.2	65	0.10
OWENS-ILLINOIS OI	1360.1	1	5640.4	4	53.2	NM	9.4	-97	3.9	NM	-1.0	NM	-0.08
PACKAGING CORP. OF AMERICA PKG	418.2	1	1735.9	-3	12.4	-35	48.2	-55	3.0	4.6	6.1	38	0.45
PACTIV PTY	778.0	10	2880.0	2	59.0	28	220.0	33	7.6	6.5	24.5	15	1.37
ROCK-TENN RKT ⁽³⁾	347.6	-1	1433.5	-1	5.1	-58	25.3	-33	1.5	3.5	6.2	18	0.74
SEALEO AIR SEE	846.1	8	3204.3	4	-501.8	NM	-309.1	NM	NM	4.9	-35.7	NM	-4.30
SILGAN HOLDINGS SLGN	466.9	1	1988.3	2	6.2	29	54.4	30	1.3	1.0	86.2	7	2.96
SMURFIT-STONE CONTAINER SSCC	1921.0	5	7483.0	-3	21.0	40	79.0	34	1.1	0.8	3.2	51	0.28
SONOCO PRODUCTS SON	728.2	8	2812.2	8	34.8	28	135.3	48	4.8	4.0	15.5	15	1.39
TEMPLE-INLAND TIN	1151.0	17	4518.0	10	19.0	-27	65.0	-41	1.7	2.6	3.1	35	1.25
(D) METALS & MINING													
INDUSTRY COMPOSITE	17335.6	9	67989.7	0	-1113.2	NM	-450.8	NM	NM	NM	-2.6	NM	-0.26
AK STEEL HOLDING AKS	1062.2	14	4289.0	12	-489.7	NM	-475.6	NM	NM	NM	-90.1	NM	-4.42
ALCOA AA	5061.0	-1	20263.0	-10	-125.0	NM	498.0	-45	NM	NM	5.0	34	0.58
ALLEGHENY TECHNOLOGIES ATI	454.2	-8	1907.8	-10	-39.7	NM	-65.8	NM	NM	NM	-14.7	NM	-0.82
ARCH COAL ACI	382.6	2	1524.0	4	1.1	-87	-2.6	NM	0.3	2.3	-0.5	NM	-0.05
BETHLEHEM STEEL BHMSQ	896.6	25	3572.4	7	-429.2	NM	-699.6	NM	NM	NM	NM	NM	-5.64
CARPENTER TECHNOLOGY CRS ⁽⁶⁾	210.2	-15	901.9	-27	-7.1	NM	-33.4	NM	NM	1.4	-7.5	NM	-1.58
COMMERCIAL METALS CMC ⁽⁴⁾	629.1	11	2511.0	4	2.2	-74	34.2	-1	0.4	1.5	6.9	12	1.19
COMMONWEALTH INDUSTRIES CMIN	238.7	17	966.2	5	6.4	NM	9.1	NM	2.7	NM	8.5	10	0.57
CONSOL ENERGY CNX	554.6**	4	2183.6	-6	4.1	-67	11.7	-92	0.7	2.4	7.2	NM	0.15
FREEPORT-McMORAN COPPER & GOLD FCX	571.0	39	1910.5	4	73.6	941	167.7	48	12.9	1.7	NM	19	0.89
MASSEY ENERGY MEE	410.2**	6	1629.7	10	-10.5	NM	-30.0	NM	NM	NM	-3.7	NM	-0.40
NUCOR NUE	1232.8	26	4568.3	10	42.9	62	162.1	43	3.5	2.7	7.0	18	2.07
PEABODY ENERGY BTU	669.8**	4	2717.1	5	29.7	460	105.5	543	4.4	0.8	9.8	13	1.96
PHELPS DODGE PD	895.5	-1	3722.0	-7	-221.6	NM	-292.1	NM	NM	NM	-10.8	NM	-3.58
QUANEX NX ⁽²⁾	273.8	7	994.4	8	15.1	34	55.5	90	5.5	4.4	13.2	9	3.52
ROUGE INDUSTRIES ROU	285.3	28	1127.0	22	-7.4	NM	-52.3	NM	NM	NM	-65.8	NM	-2.35
RYERSON TULL RT	498.0	4	2096.5	-7	-5.7	NM	-12.4	NM	NM	NM	-2.8	NM	-0.58
STEEL DYNAMICS STLD	243.2	76	864.5	42	30.8	NM	81.3	NM	12.7	NM	15.6	7	1.71
UNITED STATES STEEL X	1852.0	32	6949.0	11	12.0	NM	62.0	NM	0.6	NM	3.1	19	0.64



The

**“NO HARDWARE
AGENDA”**

storage software company.

VERITAS Software lowers your storage costs regardless of
the hardware. EMC. Hitachi. HP. IBM. Sun. What's your agenda?

veritas.com


VERITAS™

Copyright © 2003 VERITAS Software Corporation. All rights reserved. VERITAS, the VERITAS Logo and all other VERITAS product names and -logos are trademarks or registered trademarks of VERITAS Software Corporation. VERITAS and the VERITAS Logo Reg. U.S. Pat. & Tm. Off. All other trademarks are the property of their respective owners.

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-6	12 MONTHS EARN. PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
USEC USU ⁽⁶⁾	347.0	-38	1273.4	-8	-15.9	NM	-3.3	NM	NM	1.7	-0.4	NM	-0.0
WORTHINGTON INDUSTRIES WOR ⁽⁷⁾	567.9	38	2018.4	18	20.7	83	29.1	-30	3.7	2.8	4.6	42	0.
(E) PAPER & FOREST PRODUCTS													
INDUSTRY COMPOSITE	21731.6	9	89298.4	5	-303.3	NM	217.5	NM	NM	NM	0.7	NM	0.1
BOISE CASCADE BCC	1800.8	3	7412.3	0	6.2	NM	11.3	NM	0.3	NM	-0.1	NM	-0.0
BOWATER BOW	666.3	-6	2581.1	5	-66.6	NM	-142.4	NM	NM	2.3	-8.1	NM	-2.5
GEORGIA-PACIFIC GP	5101.0	-12	23271.0	-7	-234.0	NM	-190.0	NM	NM	NM	-3.6	NM	-0.3
INTERNATIONAL PAPER IP	6290.0	1	24976.0	-5	-130.0	NM	295.0	NM	NM	NM	4.0	58	0.6
LOUISIANA-PACIFIC LPX	431.6	8	1942.7	4	-46.0	NM	-21.5	NM	NM	NM	-1.9	NM	-0.2
MEADWESTVACO MWV	1893.0	100	7242.0	85	41.0	NM	-3.0	NM	2.2	NM	-0.1	NM	-0.0
POTLATCH PCH	310.8	8	1286.2	1	-19.1	NM	-50.9	NM	NM	NM	-11.8	NM	-1.7
RAYONIER RYN	286.3	13	1117.4	-1	12.8	75	54.9	-4	4.5	2.9	7.4	22	1.9
WAUSAU-MOSINEE PAPER WMO	233.8	4	948.7	1	6.4	34	23.1	159	2.7	2.1	6.5	22	0.4
WEYERHAEUSER WY	4718.0	39	18521.0	27	126.0	NM	241.0	-32	2.7	NM	3.6	46	1.0

TELECOMMUNICATION SERVICES

SECTOR COMPOSITE	59705.3	0	233825.9	-1	4420.9	NM	12837.0	198	7.4	NM	9.0	24	0.89
------------------	---------	---	----------	----	--------	----	---------	-----	-----	----	-----	----	------

22 TELECOMMUNICATION SERVICES

INDUSTRY GROUP COMPOSITE	59705.3	0	233825.9	-1	4420.9	NM	12837.0	198	7.4	NM	9.0	24	0.89
--------------------------	---------	---	----------	----	--------	----	---------	-----	-----	----	-----	----	------

(A) DIVERSIFIED TELECOMMUNICATION SERVICES

INDUSTRY COMPOSITE	51189.7	-2	200951.0	-3	4821.7	NM	16626.1	210	9.4	NM	14.2	17	1.58
ALLTEL AT	2143.7	13	7983.4	6	256.6	11	924.3	-12	12.0	12.2	15.4	15	2.96
AT&T T	9290.0	-9	37827.0	-10	-611.0	NM	963.0	NM	NM	NM	7.8	14	1.26
BELLSOUTH BLS	5692.0	-8	22440.0	-7	597.0	-25	2708.0	5	10.5	12.7	15.3	16	1.44
CENTURYTEL CTL	585.9	35	1972.0	17	43.2	18	189.9	32	7.4	8.4	6.2	21	1.33
IDT IDT ⁽⁵⁾	443.2	31	1635.6	26	-4.1	NM	-149.1	NM	NM	NM	-17.4	NM	-1.91
LEVEL 3 COMMUNICATIONS LVL	945.0	190	3148.0	105	-357.0	NM	-1113.0	NM	NM	NM	NM	NM	-2.74
SBC COMMUNICATIONS SBC	11217.0	-6	43138.0	-6	2355.0	99	7473.0	6	21.0	10.0	22.5	11	2.23
SPRINT FON GROUP FON	3659.0	-6	15182.0	-7	252.0	NM	1046.0	NM	6.9	NM	8.9	10	1.18
VERIZON COMMUNICATIONS VZ	17214.0	1	67625.0	1	2290.0	NM	4584.0	677	13.3	NM	14.1	23	1.67

(B) WIRELESS TELECOMMUNICATION SERVICES

INDUSTRY COMPOSITE	8515.6	15	32874.8	18	-400.8	NM	-3789.1	NM	NM	NM	-14.9	NM	-0.99
AT&T WIRELESS SERVICES AWE	4047.0	15	15631.0	15	-131.0	NM	-2205.0	NM	NM	NM	-11.3	NM	-0.82
SPRINT PCS GROUP PCS	3051.0	11	12074.0	24	-255.0	NM	-578.0	NM	NM	NM	NM	NM	-0.58
TELEPHONE & DATA SYSTEMS TDS	815.6	22	2985.4	15	-29.5	NM	-987.7	NM	NM	12.8	-32.4	NM	-16.85
U.S. CELLULAR USM	601.9	26	2184.5	15	14.6	-56	-18.4	NM	2.4	6.9	-0.8	NM	-0.22

UTILITIES

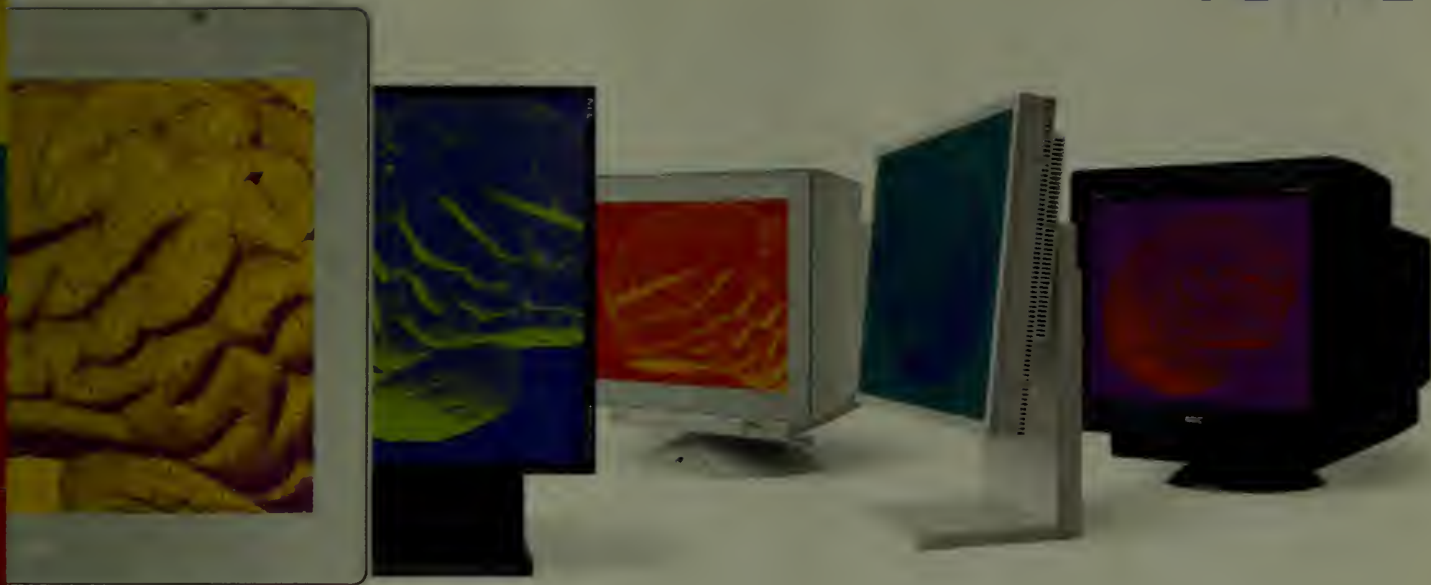
SECTOR COMPOSITE	58368.6	16	224820.9	-4	917.0	-34	9311.5	-41	1.6	2.8	6.3	22	1.20
------------------	---------	----	----------	----	-------	-----	--------	-----	-----	-----	-----	----	------

23 UTILITIES

INDUSTRY GROUP COMPOSITE	58368.6	16	224820.9	-4	917.0	-34	9311.5	-41	1.6	2.8	6.3	22	1.20
--------------------------	---------	----	----------	----	-------	-----	--------	-----	-----	-----	-----	----	------

(A) ELECTRIC UTILITIES

INDUSTRY COMPOSITE	40845.0	17	160057.1	-1	649.2	8	7826.9	-29	1.6	1.7	7.8	19	1.65
ALLETE ALE	363.0	4	1474.4	2	13.3	-46	119.0	-9	3.7	7.1	9.7	14	1.46
AMERICAN ELECTRIC POWER AEP	3800.0	31	14500.0	14	-837.0	NM	-519.0	NM	NM	1.8	-1.6	NM	-1.57
CINERGY CIN	3417.5	49	11960.1	-8	126.2	-1	400.3	-13	3.7	5.5	12.1	14	2.34
CONSOLIDATED EDISON ED	2057.0	9	8481.9	-10	123.0	-4	680.6	-2	6.0	6.8	11.3	13	3.13
CONSTELLATION ENERGY GROUP CEG	1371.9	56	4703.0	21	68.3	NM	538.8	464	5.0	NM	13.6	8	3.20
DOMINION RESOURCES D	2706.0	8	10218.0	-3	339.0	NM	1362.0	150	12.5	NM	15.0	11	4.82
DQE DQE	230.2	-15	1019.4	-10	-22.2	NM	26.7	NM	NM	NM	5.1	36	0.40
ENTERGY ETR	1878.7	0	8305.0	-14	81.7	NM	623.1	-14	4.3	0.2	7.7	17	2.64
EXELON EXC	3709.0	13	14955.0	0	397.0	17	1670.0	18	10.7	10.3	21.6	10	5.15
FPL GROUP FPL	2029.0	12	8280.0	-1	129.0	6	706.0	-11	6.4	6.8	11.0	14	4.02
GREAT PLAINS ENERGY GXP	452.7	28	1861.9	27	27.3	NM	129.2	NM	6.0	NM	15.8	11	2.04
HAWAIIAN ELECTRIC INDUSTRIES HE	435.7	4	1653.7	-4	26.9	5	120.2	10	6.2	6.1	11.4	13	3.24
NORTHEAST UTILITIES NU	1264.8	-3	5034.9	-16	57.4	12	157.7	-42	4.5	3.9	6.9	12	1.18
NSTAR NST	694.9	-1	2719.2	-15	49.5	70	163.7	NM	7.1	4.1	12.7	14	3.03
OGE ENERGY OGE	829.9	59	3023.9	-1	-32.8	NM	81.0	-14	NM	NM	7.4	16	1.04
PINNACLE WEST CAPITAL PNW	644.4	24	2637.3	-22	-14.9	NM	215.2	-34	NM	6.9	8.1	12	2.53
PPL PPL	1314.0	13	5429.0	7	130.0	NM	425.0	92	9.9	NM	16.2	14	2.34
PROGRESS ENERGY PGH	1936.8	5	8004.7	-2	149.1	NM	552.2	2	7.7	NM	8.0	16	2.53
PUBLIC SERVICE ENTERPRISE GROUP PEG	2700.0	55	8390.0	19	255.0	32	416.0	-46	9.4	11.1	11.3	17	1.99
SOUTHERN SO	2457.0	14	10549.0	4	171.4	43	1335.7	17	7.0	5.5	15.1	15	1.86
TECO ENERGY TE	660.5	15	2675.8	8	34.6	-41	298.2	9	5.2	10.3	12.3	6	1.95
TXU TXU	2158.0	0	10034.0	0	-533.0	NM	175.0	-73	NM	3.6	1.6	30	0.55
UIL HOLDINGS U I L	267.3	0	1131.0	4	3.4	-65	43.9	-26	1.3	3.6	9.1	10	3.08
WPS RESOURCES WPS	814.6	40	2674.9	0	30.0	41	112.5	39	3.7	3.6	14.0	11	3.42
XCEL ENERGY XEL	2652.0	-1	10341.0	-11	-123.0	NM	-2006.0	NM	NM	5.4	-38.3	NM	-5.26



Bright outside. Brilliant inside.

The NEC lineup of MultiSync® CRT and LCD monitors deliver sharp views and significant values. All because the technology's smarter. We've made them more intelligent to make your computing more productive and cost-efficient. With a host of IT-friendly features that offer centralized control and easier asset management. Plus available dual digital/analog interfaces that extend the life of your monitor investment. You'll slash energy costs with innovative power management features. And save space with streamlined cabinets and smaller footprints.

Choose LCDs when space is at a premium and energy efficiency is critical. Or go with CRTs for lowest total cost of ownership and great performance. Either way, you get fatigue-free viewing, featuring precise geometries and fast refresh rates. With our wide range of models to fit any application along with superior service and support, you'll see there's never been a better time to see more with NEC — a world-class provider of visual display solutions.

Learn more at www.necmitsubishi.com/intelligent or call 888-NEC-MITS.

Intelligent ergonomics

Slimmer cabinets, smaller footprints and new thinner-frame designs integrate more easily into all work environments

Intelligent power management

Low power consumption and an array of power down/power-saving modes cut costs and increase efficiencies

Intelligent electronics

Enhance productivity and flexibility with centralized and localized control features, self-diagnosing circuitry and available Ambix™ dual digital/analog inputs

Intelligent visual quality

From SuperBright™ to XtraView™, NEC innovations ensure the highest caliber picture quality with minimal fatigue and ultimate color accuracy



SEE MORE.™

MultiSync is a registered trademark, and Ambix, XtraView and SuperBright are trademarks of NEC-Mitsubishi Electronics Display of America, Inc.
©2002 NEC-Mitsubishi Electronics Display of America, Inc. All rights reserved.
Simulated images in monitors.

NEC/MITSUBISHI
NEC-MITSUBISHI ELECTRONICS DISPLAY

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-6	12 MONTHS EARNING PER SHARE
	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	12 MONTHS 2002 \$ MIL.	CHANGE FROM 2001 %	4TH QUARTER 2002 %	4TH QUARTER 2001 %			
(B) GAS UTILITIES													
INDUSTRY COMPOSITE	7142.6	14	23332.3	-15	559.1	57	1601.3	45	7.8	5.7	12.6	13	2.12
AGL RESOURCES ATG	249.7	24	868.9	3	31.2	25	103.0	13	12.5	12.4	14.1	12	1.8
KEYSPAN KSE	1807.3	12	5970.7	-10	148.6	120	397.4	63	8.2	4.2	13.5	12	2.75
KINDER MORGAN KMI †	285.0	0	1015.3	-4	67.5	-7	309.2	30	23.7	25.5	13.0	18	2.5
LACLEDE GROUP LG (3)	280.2	44	840.8	-1	15.1	95	29.8	51	5.4	4.0	10.0	15	1.57
NEW JERSEY RESOURCES NJR (3)	668.8	69	2103.7	18	23.3	19	60.5	11	3.5	5.0	16.7	14	2.22
NISOURCE NI	1841.4	-9	6492.3	-31	135.1	94	432.5	85	7.3	3.4	12.6	9	2.00
PEOPLES ENERGY PGL (3)	549.1	45	1654.1	-14	31.0	0	89.1	-4	5.6	8.2	10.9	15	2.51
SOUTHERN UNION SUG (6)	346.2	21	1019.0	-23	18.3	103	28.4	47	5.3	3.1	6.2	29	0.51
UGI UGI (3)	739.9	19	2334.2	-1	37.1	51	89.7	77	5.0	4.0	27.8	13	3.13
WGL HOLDINGS WGL (3)	375.0	41	1033.5	-12	52.0	70	61.8	-3	13.9	11.5	7.5	20	1.24
(C) MULTI-UTILITIES & UNREGULATED POWER													
INDUSTRY COMPOSITE	10381.0	16	41431.5	-7	-291.3	NM	-116.6	NM	NM	4.9	-1.6	NM	-0.26
AVISTA AVA	265.3	-17	980.4	-30	10.5	NM	34.3	-42	4.0	NM	4.4	16	0.67
DUKE ENERGY DUK	4000.0	4	15186.0	-18	-52.0	NM	1034.0	-48	NM	5.8	6.8	14	1.22
DYNEGY DYN	1354.0	-31	4950.0	-46	-327.0	NM	-2025.0	NM	NM	1.4	NM	NM	-6.44
ENERGY EAST EAS	1249.3	49	4008.9	7	54.0	-19	188.6	1	4.3	7.9	7.6	14	1.44
EQUITABLE RESOURCES EQT	333.9	38	1069.1	-4	42.4	74	150.6	-1	12.7	10.1	19.1	16	2.36
MDU RESOURCES GROUP MDU	557.0	15	2031.5	-9	45.9	58	148.4	-5	8.2	6.0	12.3	13	2.07
NATIONAL FUEL GAS NFG (3)	479.7	22	1551.9	-18	46.9	41	131.4	187	9.8	8.5	12.7	12	1.63
RELIANT RESOURCES RRI	2141.8	160	11653.7	80	-112.1	NM	221.0	-60	NM	4.0	3.5	5	0.76

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A

A&P 6

Abbott Laboratories 15b

Abercrombie & Fitch 5d

ABM Industries 17

Accenture 19b

Accredo Health 14b

ACE 12

Activision 19c

Acuity Brands 16d

Axiom 19b

ADC Telecomm. 20a

Adobe Systems 19c

Advanced Marketing 5a

Advanced Micro 20e

AdvancePCS 14b

ADVO 4

Affiliated Computer Svcs. 19b

AFLAC 12

AGCO 16f

Agere Systems 20e

Agilent Technologies 20c

AGL Resources 23b

Air Products & Chemicals 21a

Airborne 18a

Airgas 21a

AK Steel Holding 21d

Alaska Air Group 18b

Albany International 16f

Albemarle 21a

Alberto-Culver 8b

Albertson's 6

Alcoa 21d

Alexander & Baldwin 18c

Allegheny Tech. 21d

Allergan 15b

Allete 23a

Alliance Data Sys. 17

Alliant Techsystems 16a

Allstate 12

Alltel 22a

Altria Group 7c

Amazon.com 5b

AMC Entertainment 4

Amerada Hess 9b

America West Holdings 18b

American Axle & Mfg. 1a

American Eagle Outfitters 5d

American Electric 23a

American Express 11

American Greetings 2a

American Power 16d

American Standard 16b

AmerisourceBergen 14b

AmerUs Group 12

Ametek 16d

Amgen 15a

Amkor Technology 20e

Amphenol 20c

AMR 18b

AmSouth Bancorporation 10

Anadarko Petroleum 9b

Analog Devices 20e

Andersons 5a

Andrew 20a

Anheuser-Busch 7a

Anixter International 20c

AnnTaylor Stores 5d

Anthem 14b

AOL Time Warner 4

Apache 9b

Apogent Technologies 14a

Apollo Group 17

Apple Computer 20b

Applied Biosystems 14a

Applied Industrial Tech. 16g

Applied Materials 20e

Aramark 17

Arch Coal 21d

Archer Daniels 7b

Argosy Gaming 3

Argosy Culver 8b

Arkansas Best 18d

ArvinMeritor 1a

Ashland 9b

Associated Banc-Corp 10

Astoria Financial 10

AT&T 22a

AT&T Wireless 22b

ATA Holdings 18b

Atmel 20e

Autoliv 1a

Automatic Data 17

AutoNation 5d

AutoZone 5d

Avaya 20a

Avery Dennison 17

Aviall 16a

Avista 23c

Avnet 20c

Avon Products 8b

AVX 20c

B

Ball 21c

Bandag 1a

Bank of America 10

Bank of New York 10

Bank One 10

Banknorth Group 10

Banta 17

Bard (C.R.) 14a

Barnes & Noble 5d

Barr Laboratories 15b

Bausch & Lomb 14a

Baxter International 14a

BB&T 10

BEA Systems 19c

Bear Stearns 11

BearingPoint 19b

Beazer Homes USA 2a

Beckman Coulter 14a

Becton, Dickinson 14a

Bed Bath & Beyond 5d

BellSouth 22a

Bemis 21c

Benchmark Electronics 20c

Best Buy 5d

Bethlehem Steel 21d

Big Lots 5c

Biogen 15a

Biomet 14a

Bisys Group 17

BJ Services 9a

BJ's Wholesale Club 5c

Black & Decker 2a

Block (H&R) 17

Blyth 2a

BMC Software 19c

Bob Evans Farms 3

Boeing 16a

Boise Cascade 21e

BOK Financial 10

Borders Group 5d

BorgWarner 1a

Boston Properties 13

Boston Scientific 14a

Bowater 21e

Briggs & Stratton 16f

Brightpoint 5a

Brinker International 3

Broadcom 20e

Brown Shoe 2c

Brown-Forman 7a

C

Cabot 21a

Cadence Design Systems 19c

Campbell Soup 7b

Capital One Financial 11

Caraustar Industries 21c

Cardinal Health 14b

Career Education 17

Carlisle 16e

CarMax 5d

Carnival 3

Carpenter Tech. 21d

Casey's General Stores 6

Caterpillar 16f

CBRL Group 3

CDW Computer Centers 5d

Cendant 17

Centex 2a

Central Garden & Pet 7b

CenturyTel 22a

Ceridian 17

Certegy 17

Charming Shoppes 5d

Charter One Financial 10

Chesapeake 21c

ChevronTexaco 9b

Chiron 15a

Cigna 14b

Cincinnati Financial 12

CINergy 23a

Cintas 17

Circuit City Stores 5d

Cisco Systems 20a

CIT Group 11

Citigroup 11

CKE Restaurants 3

Claire's Stores 5d

Clayton Homes 2a

CNF 18a

Coach 2c

Coca-Cola Enterprises 7a

Colgate-Palmolive 8a

Colonial BancGroup 10

Columbia Sportswear 2c

Comerica 10

D

D&K Healthcare Resources 14b

Danaher 16f

Darden Restaurants 3

Deere 16f

Dell Computer 20b

Delphi 1a

Delta Air Lines 18b

Deluxe 17

Dentsply Intl. 14a

Devon Energy 9b

Dial 8a

Dick's Sporting Goods 5d

E

E*Trade Group 11

EarthLink 19a

Eastman Chemical 21a

Eastman Kodak 2b

Eaton 16f

eBay 5b

Edwards (A.G.) 11

Edwards (J.D.) 19c

Electronic Arts 19c

Electronic Data Systems 19b

Electronics Boutique 5d

Elizabeth Arden 8b

EMC 20b

Emerson Electric 16d

Energizer Holdings 16d

Energy East 23c

Engelhard 21a

Energy 23a

EOG Resources 9b

Equifax 17

Equitable Resources 23c

Equity Office Properties 13

Equity Residential 13

Estee Lauder 8b

Ethan Allen Interiors 2a

Exelon 23a

Expresslert Holdings 18b

Exxon Mobil 9b

F

Fairchild Semiconductor 20e

Family Dollar Stores 5c

Fannie Mae 11

Fastenal 16g

Federal Signal 1a

Federated Dept. Stores 5c

FedEx 18a

FelCor Lodging 13

Ferro 21a

Fidelity National Finl. 12

Fifth Third Bancorp 10

First Data 17

First Tennessee Natl. 10

FirstMerit 10

Fiserv 17

Fisher Scientific 14a

FleetBoston Financial 10

Fleetwood Ents. 2a

Fleming 6

Flowers Foods 7b

Flowerserve 16f

Fluor 16c

FMC 21a

FMC Technologies 9a

Foodarama 6

Foot Locker 5d

Ford Motor 1b

Forest City Ent. 13

Forest Laboratories 15b

Fortune Brands 2a

FPL Group 23a

Franklin Resources 11

Freddie Mac 11

Fred's 5c

Freeport-McMoran C&G 21d

Fuller (H.B.) 21a

Furniture Brands 2a

G

Gallagher (Arthur J.) 12

GameStop 5d

Gannett 4

Gap 5d

Gart Sports 5d

Gartner 19b

Gateway 20b

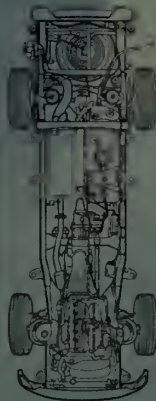
GATX 11

GenCorp 16a

Genentech 15a

ENVOY

SMOOTH RIDE



A TECHNICALLY ADVANCED CHASSIS OF HYDROFORMED STEEL SUPPORTED BY BILSTEIN® GAS-CHARGED SHOCK ABSORBERS. STANDARD DUAL-ZONE CLIMATE CONTROLS AND AN OPTIONAL BOSE® AUDIO SYSTEM. IT'S COMFORTABLE. MAYBE TOO COMFORTABLE. GET USED TO IT.

**WE ARE
PROFESSIONAL
GRADE.SM**



ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

General Cable 16d
General Dynamics 16a
General Electric 16e
General Growth Pptys. 13
General Mills 7b
General Motors 1b
Genesco 5d
Genesis Health 14b
Georgia Gulf 21a
Georgia-Pacific 21e
Gillette 8b
Golden West 10
Goldman Sachs Group 11
Goodrich 16a
Goody's Family Clothing 5d
Grace (W.R.) 21a
Grainger (W.W.) 16g
Great A&P 6
Great Lakes Chemical 21a
Great Plains Energy 23a
GreenPoint Financial 10
Greif Bros. 21c
Griffon 16b
Gtech Holdings 3
GTSI 20c
Guidant 14a

H

Handleman 5a
Harland (John H.) 17
Harley-Davidson 1b
Harman International 2a
Harrah's Entertainment 3
Harris 20a
Harsco 16f
Harte-Hanks 4
Hartford Financial Services 12
Hawaiian Electric 23a
Hayes Lemmerz Intl. 1a
HCA 14b
Health Management Assocs. 14b
Heinz (H.J.) 7b
Hershey Foods 7b
Hewitt Associates 17
Hewlett-Packard 20b
Hibernia 10
Hillbrand 14a
Hilton Hotels 3
Holly 9b
Home Depot 5d
HON Industries 17
Honeywell Intl. 16a
Horace Mann 12
Hormel Foods 7b
Horton (D.R.) 2a
Hotels.com 19a
Household Intl. 11
Hovnanian Ents. 2a
Hubbell 16d
Hughes Electronics 4
Hughes Supply 5d
Humana 14b
Hunt (J.B.) 18a
Huntington Bancshares 10

I

IBM 20b
IDT 22a
IKON Office Solutions 20d
Illinois Tool Works 16f
Imation 20b
IMC Global 21a
Ingersoll-Rand 16f
Ingles Markets 6
Insight Enterprises 5b
Integrated Electrical Svcs. 16c
Intel 20e
International Flavors 21a
International Game Tech. 3
International Paper 21e
International Rectifier 20e
Interstate Bakeries 7b
Intl. Multifoods 7b
Intuit 19c
Invacare 14a

Isle of Capri Casinos 3
ITT Industries 16f

J

J.P. Morgan Chase 11
Jabil Circuit 20c
Jacobs Engineering 16c
Janus Capital 11
Jefferson-Pilot 12
Jo-Ann Stores 5d
John Hancock Financial 12
Johnson & Johnson 15b
Johnson Controls 1a
Jones Apparel Group 2c
Jones Lang LaSalle 13
Joy Global 16f

K

Kaman 16a
KB Home 2a
Kellogg 7b
Kellwood 2c
Kelly Services 17
Kennametal 16f
Kerr-McGee 9b
KeyCorp 10
KeySpan 23b
Kimball Intl. 2a
Kimberly-Clark 8a
Kinder Morgan 23b
KLA-Tencor 20e
Kmart 5c
Knight-Ridder 4
Kohl's 5c
Kraft Foods 7b
Kroger 6

L

L-3 Communications 16a
Labor Ready 17
Laclede Group 23b
Lafarge North America 21b
Lancaster Colony 7b
Landstar System 18d
La-Z-Boy 2a
Lear 1a
Legg Mason 11
Leggett & Platt 2a
Lehman Brothers Holdings 11
Lennar 2a
Lennox International 16b
Level 3 Commun. 22a
Lexmark Intl. 20b
Lilly (Eli) 15b
Limited Brands 5d
Linen 'N Things 5d
Lockheed Martin 16a
Longs Drug Stores 6
Longview Fibre 21c
Louisiana-Pacific 21e
Lowe's 5d
LSI Logic 20e
Lubrizol 21a
Lucent Technologies 20a
Lyondell 21a

M

M&T Bank 10
M.D.C. Holdings 2a
Mandalay Resort Group 3
Manor Care 14b
Manpower 17
Manufacturers Services 16d
Marathon Oil 9b
Markel 12
Marsh & McLennan 12
Marshall & Ilsley 10
Martin Marietta Materials 21b
Massey Energy 21d
Mattel 2b
Maxim Integrated Prods. 20e
Maxtor 20b
May Department Stores 5c
Maytag 2a

MBIA 12
MBNA 11
McClatchy 4
McCormick 7b
McDonald's 3
McGraw-Hill 4
McKesson 14b
MDU Resources Group 23c
MeadWestvaco 21e
Media General 4
MedImmune 15a
Medtronic 14a
Mellon Financial 10
Men's Wearhouse 5d
Merck 15b
Meredith 4
Meritage 2a
Merrill Lynch 11
Metris 11
Metro-Goldwyn-Mayer 4
Mettler-Toledo Intl. 20c
MGIC Investment 12
MGM Mirage 3
MI Schottenstein Homes 2a
Michaels Stores 5d
Micron Technology 20e
Microsoft 19c
Millennium Chemicals 21a
Miller (Herman) 17
Modine Mfg. 1a
Mohawk Industries 2a
Molex 20c
Monaco Coach 1b
Monsanto 21a
MONY Group 12
Moody's 11
Morgan Stanley 11
Motorola 20a
MPS Group 19b
MSC Industrial Direct 16g
Mueller Industries 16f
Murphy Oil 9b
Mylan Laboratories 15b

N

Nabors Industries 9a
National City 10
National Commerce Finl. 10
National Fuel Gas 23c
National Semicond. 20e
Nationwide Financial Svcs. 12
Navistar International 16f
NBTV 8b
NCI Building Systems 16b
NCR 20b
Neiman Marcus Group 5c
Network Appliance 20b
Network Associates 19c
New Jersey Resources 23b
New York Times 4
Newell Rubbermaid 2a
Nike 2c
99 Cents Only Stores 5c
NiSource 23b
NL Industries 21a
Noble 9a
Noble Energy 9b
Nordstrom 5c
Norfolk Southern 18d
North Fork Bancorp. 10
Northeast Utilities 23a
Northern Trust 10
Northrop Grumman 16a
Northwest Airlines 18b
Novell 19c
Novellus Systems 20e
NSTAR 23a
Nu Skin Enterprises 8b
Nucor 21d
NVIDIA 20e
NVR 2a

O

Occidental Pet. 9b
Ocean Energy 9b

OfficeMax 5d
OGE Energy 23a
Ohio Casualty 12
Old Republic Intl. 12
Olin 21a
OM Group 21a
ON Semiconductor 20e
Oracle 19c
Oshkosh Truck 16f
Owens & Minor 14b
Owens-Illinois 21c
Oxford Health Plans 14b

P

Paccar 16f
Pacific Sunwear of Calif. 5d
Packaging Corp. America 21c
Pactiv 21c
Pall 16f
Palm 20b
Pantry 6
Park Place Entertainment 3
Parker Hannifin 16f
Pathmark Stores 6
Patterson Dental 14b
Paychex 17
Payless ShoeSource 5d
PC Connection 5d
PC Mall 5b
Peabody Energy 21d
Penn Traffic 6
Penney (J.C.) 5c
Pentair 16f
People's Bank 10
Peoples Energy 23b
PeopleSoft 19c
Pep Boys 5d
Pepsi Bottling Group 7a
PepsiAmericas 7a
PepsiCo 7a
Performance Food 6
PerkinElmer 20c
Perrigo 15b
Petco Animal Supplies 5d
PetSmart 5d
Pfizer 15b
Phelps Dodge 21d
Phillips-Van Heusen 2c
Pier 1 Imports 5d
Pilgrim's Pride 7b
Pinnacle West 23a
Pioneer-Standard 20c
Pitney Bowes 17
Plum Creek Timber 13
PMA Capital 12
PMI Group 12
PNC Financial Svcs. 10
Pogo Producing 9b
Polaris Industries 2b
Polo Ralph Lauren 2c
PolyOne 21a
Popular 10
Potlatch 21e
PPG Industries 21a
PPL 23a
Praxair 21a
Precision Castparts 16a
Premcor 9b
Price (T. Rowe) 11
Principal Financial Group 11
Procter & Gamble 8a
Progress Energy 23a
Progressive 12
Provident Financial 10
Provident Financial 11
PSS World Medical 14b
Public Service Ent. 23a
Pulte Homes 2a

Q

Qualcomm 20a
Quanex 21d
Quantum 20b
Quest Diagnostics 14b
Quintiles Transnational 14b

R

R.J. Reynolds Tobacco 7c
Radian Group 12
Ralcorp Holdings 7b
Raymond James Finl. 11
Rayonier 21e
Rayovac 16d
Raytheon 16a
Reader's Digest 4
Reebok International 2c
Regal Entertainment 4
Regions Financial 10
Regis 5d
Reinsurance Group 12
Reliant Resources 23c
Republic Services 17
Reynolds & Reynolds 19c
Rite Aid 6
Roadway 18d
Robert Half International 17
Robinson (C.H.) 18a
Rock-Tenn 21c
Rockwell Automation 16d
Rockwell Collins 16a
Rohm & Haas 21a
Ross Stores 5d
Rouge Industries 21d
Royal Caribbean Cruises 3
RPM Intl. 21a
Ruby Tuesday 3
Ruddick 6
Ryder System 18a
Ryerson Tull 21d
Ryland Group 2a

S

Sabre Holdings 17
Safeco 12
Safeway 6
Saks 5c
Salton 2a
Sanmina-SCI 20c
Sara Lee 7b
SBC Communications 22a
ScanSource 20c
Schering-Plough 15b
Schlumberger 9a
Scholastic 4
School Specialty 5b
Schulman (A.) 21a
Schwab (Charles) 11
Scientific-Atlanta 20a
Scripps (E.W.) 4
Sealed Air 21c
Sears, Roebuck 5c
Select Medical 14b
Selective Insurance Group 12
Seneca Foods 6
7-Eleven 6
Shaw Group 16c
Sherwin-Williams 5d
ShopKo Stores 5c
Siebel Systems 19c
Sierra Health Services 14b
Silgan Holdings 21c
Silicon Graphics 20b
Simon Property 13
Sky Financial Group 10
SLM 11
Smith (A.O.) 16d
Smith International 9a
Smithfield Foods 7b
Smucker (J.M.) 7b
Smurfit-Stone Container 21c
Snap-on 2a
Soletron 20c
Solutia 21a
Sonoco Products 21c
Southern 23a
Southern Union 23b
SouthTrust 10
Southwest Airlines 18b
Sovereign Bancorp 10
Spartech 21a

Spherion 17
Sports Authority 5d
Sprint FON Group 22a
Sprint PCS Group 22b
St. Joe 13
St. Jude Medical 14a
St. Paul 12
StanCorp Financial Group 12
Standard Commercial 7c
Standard Pacific 2a
Stanley Works 2a
Staples 5d
Starbucks 3
Starwood Hotels & Resorts 3
State Street 11
Steel Dynamics 21d
Steelcase 17
Steris 14a
Stewart & Stevenson 16f
Storage Technology 20b
Stryker 14a
Student Loan 11
Sun Microsystems 20b
Sunoco 9b
SunTrust Banks 10
Supervalu 6
Sybase 19c
Symantec 19c
Synopsis 19c
Synovus Financial 10
Sysco 6

T

Take-Two Interactive 19c
Talbots 5d
Target 5c
TCF Financial 10
Tech Data 20c
Teco Energy 23a
Tecumseh Products 16f
Teledyne Tech. 20c
Telephone & Data Sys. 22b
Tellabs 20a
Temple-Inland 21c
Tenet Healthcare 14b
Tenneco Automotive 1a
Teradyne 20e
Terra Inds. 21a
Tesoro Petroleum 9b
Texas Industries 21b
Texas Instruments 20e
Textron 16e
Thermo Electron 20c
Thor Industries 1b
3Com 20a
3M 16e
Timothy 5d
Timberland 2c
Timken 16f
TJX 5d
Toll Brothers 2a
Torchmark 12
Toro 2a
Total System Services 17
Toys 'R' Us 5d
Tractor Supply 5d
Trans World Entertainment 5d
Transocean 9a
Travelers Property Casualty 12
Tribune 4
Trump Hotels 3
Tupperware 2a
Tweeter Home Ent. 5d
TXU 23a
Tyco Intl. 16e
Tyson Foods 7b

U

U.S. Bancorp 10
U.S. Cellular 22b
U.S. Xpress Ent. 18d
UAL 18b
UGI 23b
UIL Holdings 23a
Union Pacific 18d

Union Planters 10
UnionBanCal 10
Unisys 19b
United Defense Inds. 16a
United Natural Foods 6
United Parcel Service 18a
United States Steel 21d
United Stationers 17
United Technologies 16a
UnitedHealth Group 14b
Unitron 12
Universal Forest Products 16b
Unocal 9b
UnumProvident 12
URS 16c
US Airways Group 18b
USEC 21d
USFreightways 18d
USG 16b
UST 7c
UTStarcom 20a

V

Valero Energy 9b
Valspar 21a
Value City 5c
Varco International 9a
VeriSign 19a
Veritas Software 19c
Verizon Communications 22a
Viad 17
Village Super Market 6
Visteon 1a
Volt Info. Sciences 17
Vulcan Materials 21b

W

Wachovia 10
Walgreen 6
Wallace Computer 17
Wal-Mart Stores 5c
Walter Industries 16e
Washington Mutual 10
Washington Post 4
Waters 20c
Watson Pharmaceuticals 15b
Wausau-Mosinee Paper 21e
WCI Communities 2a
Weatherford Intl. 9a
Webster Financial 10
Weis Markets 6
Wells Fargo 10
Wendy's Intl. 3
Werner Enterprises 18d
West 17
Western Digital 20b
Weyerhaeuser 21e
WFS Financial 11
Weatherford Intl. 9a
Webster Financial 10
Weis Markets 6
Wells Fargo 10
Wendy's Intl. 3
Werner Enterprises 18d
West 17
Western Digital 20b
Weyerhaeuser 21e
WFS Financial 11
WGL Holdings 23b
Whirlpool 2a
Wiley (John) & Sons 4
Williams-Sonoma 5d
Winn-Dixie Stores 6
Winnebago Industries 1b
Wolverine World Wide 2c
Worthington Inds. 21d
WPS Resources 23a
Wrigley (Wm.) Jr. 7b
Wyeth 15b
Wyndham International 3

X,Y

Xcel Energy 23a
Xerox 20d
Xilinx 20e
Yahoo 19a
Yellow 18d

Z

Zale 5d
Zimmer Holdings 14a
Zions Bancorporation 10

Featuring



Governor Jeb Bush



The Honorable Bill Bradley
former United States Senator



General Wesley K. Clark (Ret.)
former Supreme Allied Commander of
Europe, United States Army (invited)

and, CFO and CIO teams from major organizations including:

Inisys Corporation

Janet Brutschea Haugen, CFO and SVP
John C. Carrow, CIO and VP, IT

Siemens Corporation

Dana Deasy, VP and CIO, The Americas
Klaus P. Stegemann, EVP and CFO

Network Appliance

Steven J. Gomo, SVP, Finance and CFO
Scott Klimke, VP, IT and CIO

BusinessWeek

| Events



The BusinessWeek CFO+CIO Forum

Collaborative thinking for business excellence.

Join us as we take collaboration to a higher level. It's a rare opportunity for CIOs and CFOs to interact, network and share ideas. All in a world-class setting.

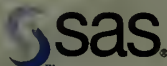
To register call 1-800-510-2901 or www.businessweek.com/cfocio

Presented by

The McGraw-Hill Companies

Sponsored by

BearingPoint

sas

With support from

BUSINESS OBJECTS

Association partner

SIM
INTERNET

Dinner hosted by Enterprise Florida

MERCURY
INTERACTIVE

VERITAS

IDA
IRELAND

RHR
INTERNATIONAL

TAMING

THE

American troops are massing outside of Iraq, preparing to strike against Saddam Hussein. And as war jitters rattle the world, there's one inevitable effect: a rise in the price of oil. Crude is up more than 33% over the past three months, climbing to \$35 per barrel in the U.S. Economic models predict that if the price stays high for three months, it will cut U.S. gross domestic product by \$50 billion for the quarter. If the war goes badly, with Saddam destroying oil fields in Iraq and elsewhere, or if disaster or unrest chokes off oil flowing from other countries, the whole world's economy is in for a major shock.

Cover Story

A sensible, step-by-step energy policy is within our reach. Here's what to do.

Persian Gulf hits us hard in the pocketbook. "We are vulnerable to any event, anyplace, that affects the supply and demand of oil," says Robert E. Ebel, director of the energy program at the Center for Strategic & International Studies (CSIS). In a Feb 6. speech, President Bush put it bluntly: "It jeopardizes our national security to be dependent on sources of energy from countries that don't care about America, what we stand for, what we love."

It wasn't supposed to be this way. Remember how Richard Nixon insisted in 1973 that the nation's future "will depend on maintaining and achieving self-sufficiency in energy"? Or how Jimmy Carter proclaimed in 1979 that "beginning this moment, this nation will never again use more foreign oil than we did in 1977—never." Even Ronald Reagan said in 1982 that "we will ensure that

There's no escaping the consequences of our thirst for oil. It fuels a vast engine of commerce, carrying our goods around the nation, taking mom and dad to work, and carting the kids to soccer practice. As long as the U.S. imports more than 11 million bbl. a day—55% of our total consumption—anything from a strike in Venezuela to unrest in the

OIL BEAST

BY JOHN CAREY



our people and our economy are never again held hostage by the whim of any country or cartel."

How empty those vows seem now, when one nation, Saudi Arabia, is sitting on the world's largest proved reserves—265 billion bbl., or 25% of the known supplies—and can send global prices soaring or falling simply by opening or closing the spigot. For now, the Saudis are our friends. They are boosting production to keep prices from spiking too high. But what if Saudi Arabia's internal politics change? "The entire world economy is built on a bet of how long the House of Saud can continue," says Philip E. Clapp, president of the National Environmental Trust.

The good news is that we can make a safer bet. And it doesn't entail a vain rush for energy independence or emancipation from Middle East oil. Based on interviews with dozens of economists, oil analysts, environmentalists, and other energy experts, *BusinessWeek* has crafted guidelines for a sensible and achievable energy policy. These measures build on the positive trends of the past. If implemented, they would reduce the world's vulnerability to wars in the Middle East, production snafus in Russia, turmoil around the Caspian Sea, and other potential disruptions. The plan has the added benefit of tackling global warming, which many scientists consider the greatest economic threat of this century.

The energy policy *BusinessWeek* advocates comes down to six essential steps (table). To deal with oil supplies, the U.S. should diversify purchases around the world and make better use of strategic petroleum reserves. It must also boost energy efficiency across the economy, including making dramatic improvements in the fuel efficiency of cars and trucks. How do we accomplish this? Nurture new technologies and alternative energy sources with research dollars and tax incentives, and consider higher taxes on energy to more accurately reflect the true costs of using fossil fuels. Projecting the precise effects of these policies is impossible, economists warn. But *BusinessWeek* estimates that, at a cost of \$120 billion to \$200 billion over 10 years—less than the cost to the economy of a major prolonged oil price rise—it should be possible to raise energy efficiency in the economy by up to 50%

CURBING AMERICA'S OIL ADDICTION

The U.S. can't achieve energy independence anytime soon—nor is it necessary. These steps will reduce our vulnerability to oil shocks and other political developments in the Middle East. They also will strengthen U.S. industries and reduce carbon emissions linked to global warming:

DIVERSIFY OIL SUPPLIES

1 For the near term, there is enough petroleum worldwide to satisfy everyone's needs. With long-term supply goals in mind, U.S. companies should participate in international development efforts outside the Middle East. Some promising areas: Africa's west coast and the Caspian Basin, which may harbor oil reserves of more than 200 billion bbl.

USE STRATEGIC RESERVES

2 In the past, the spigots on this 700 million bbl.-capacity oil repository have been opened too late in a crisis to damp sudden price shocks. We ought to be pumping some oil now to replace that lost from Venezuela and Iraq. We also should make more regular use of the reserve—and similar repositories in other countries—as a hedging tool for future price spikes.

BOOST INDUSTRIAL EFFICIENCY

3 Since the oil shocks of the 1970s, the amount of energy needed to produce \$1 of gross domestic product has fallen nearly by half. But efficiency gains slowed in recent years, mainly because oil is so cheap. Industry must move more quickly to adopt energy-efficient technologies such as adjustable-speed factory motors, LED lighting, and smart digitally controlled electricity networks.

and reduce U.S. oil consumption by more than 3 million bbl. a day.

These steps draw on the lessons of history and help highlight what not to do. Meaningful progress has long been held up by myths and misconceptions—and by the scores of bad ideas pushed in the name of energy independence. Remember "syn-fuels" in the 1970s? Today's misguided notions include trying to turn perfectly good corn into ethanol and rushing to drill in the Arctic National Wildlife refuge. Indeed, looking over the past couple of decades, "my reaction is, thank God we didn't have an energy policy," says David G. Victor, director of Stanford University's Program on Energy & Sustainable Development. "The last one had quotas and rationing, causing lines at the gas pumps and incredible inefficiencies in the economy."

One false notion is that making the U.S. self-sufficient—or doing without Middle Eastern oil—would protect us from supply cutoffs and price spikes. In fact, oil has become a fungible world commodity. Even if we cut the umbilical cord with the Persian Gulf by buying more oil from Canada, Mexico, or Russia, or by producing more at home, other nations will simply switch over to buy the Middle Eastern oil we're shunning. The world oil price, and the potential for spikes in that price, remains the same. As long as there are no real oil monopolies, it doesn't matter so much where we get oil. What really matters is how much we use. Reducing oil use brings two huge benefits: Individual countries have less leverage over us, and, since oil costs are a smaller percentage of the economy, any price shocks that do occur have a less dramatic effect.

Yet reducing oil use has to be done judiciously. A drastic or abrupt drop in demand could even be counterproductive. Why? Because even a very small change in capacity or demand "can bring big swings in price," explains Rajeev Dhawan, director of the Economic Forecasting Center at





DIVERSIFY SOURCES

Development outside the Persian Gulf could reduce price spikes from wars

1930s to the 1970s, America produced about \$750 worth of output per barrel of oil. That number doubled, to \$1,500, by the end of the 1980s. But the progress largely stopped in the past decade. Now we need policies to continue those fuel-efficiency gains, without the pain of sudden oil shocks.

The critical balancing act is reducing oil use without hurting the economy—or without allowing energy prices to fall so low that companies and individuals abandon all efforts to conserve. Successfully walking this tightrope can bring big gains. The next time we

are hit with a spike in the price of oil, or even of natural gas or electricity, we may be able to avoid the billions in lost GDP that would otherwise result.

Here are the details.

1. DIVERSIFY OIL SUPPLIES

The answer to the supply question is a delicate combination of technology, market forces, and diplomacy. New tools for drilling in waters nearly two miles deep, for instance, are opening up untapped sources in the Atlantic Basin, Canada, the Caribbean, Brazil, and the entire western coast of Africa.

That's helping to tip the balance of power among oil producers. In 1973, the Middle East produced nearly 38% of the world's oil. Now, that percentage has dropped below 30%. "Our policy has been to encourage oil companies to search for oil outside the U.S. but away from the Persian Gulf," explains CSIS's Ebel. "It's been rather successful."

There's plenty of oil to be tapped. While there are now about 1 trillion bbl. of proved reserves, estimates of potential reserves keep rising, from 2 trillion bbl. in the early 1980s to more than 3 trillion bbl. today.

The Caspian Sea area, for instance, promises proved reserves of 20 billion bbl. to 35 billion bbl.—but could have more than 200 billion bbl. Skeptics argue that this Caspian resource, surrounded as it is by Iran, Kazakhstan, Russia, Azerbaijan, and Georgia, is a bastion of instability and could easily become the backdrop for a future war linked to oil. But history shows that even bad guys are eager to sell their oil.

If energy policy were only about economics, we might argue that the world should take advantage of the ample supplies and relatively cheap prices and just keep consuming at a rapid

Georgia State University's Robinson College of Business. For instance, the slowdown in Asia in the mid-1990s reduced demand only by about 1.5 million bbl. a day, but it caused oil prices to plunge to near \$10 a barrel. So today, if the U.S. succeeded in abruptly curbing demand for oil, prices would plummet. Higher-cost producers such as Russia and the U.S. could either have to sell oil at a big loss or stand on the sidelines. The effect would be to concentrate power—you guessed—in the hands of Middle Eastern nations, the lowest-cost producers and holders of two-thirds of the known oil reserves. That's why flawed energy policies, such as trying to override market forces by rushing to expand supplies or mandating big fuel efficiency gains, could do harm.

The truth is, the post-1970s de facto policy of just letting the markets work hasn't been all bad. Painful oil shocks brought recessions. But they also touched off a remarkable increase in the energy efficiency of the U.S. economy. From the

RAISE CAR & TRUCK MPG

Transportation accounts for two-thirds of oil use, so boosting gas mileage of cars and light trucks brings savings. Detroit must be prodded to make vehicles that average 40 mpg or more, thereby reducing U.S. oil consumption by more than 2 million bbl. a year. Automakers must also fast-track hydrogen fuel-cell cars, which could slash consumption further.

NURTURE RENEWABLE ENERGY

5 Wind, solar, hydrogen, and other power sources are still more expensive than fossil fuels. But innovations are bringing down the price—and having alternative sources provides a hedge against big spikes in the prices of oil or natural gas. What's needed is research spending, tax incentives, and requirements that a percentage of power come from renewable sources.

PHASE IN FUEL TAXES

6 Currently, the prices of oil and gasoline don't reflect the actual cost of these fuels, since they don't include so-called externalities like pollution or the cost of fighting wars in the Middle East. The U.S. could impose taxes that would raise prices to reflect these costs and thus harness market forces to stimulate fuel-efficiency gains. Cuts in payroll taxes could ease the burden.



The Principal Financial Group® knows retirement
with easier-to-read personalized statements

Learn more: www.xerox.com/learn For a sales rep: 1-800-ASK-XEROX ext. LEAD

© 2002 XEROX CORPORATION. All rights reserved. XEROX®, The Document Company®, and There's a new way to look at it are trademarks of XEROX CORPORATION.
The Principal Financial Group® is a registered trademark of the Principal Financial Group, Inc. or its subsidiaries.



Investors have dreams to pursue. Xerox helps
color. There's a new way to look at it.

THE DOCUMENT COMPANY
XEROX®

rate. But there are additional costs of oil not included now in the price (step 6). And we have other important goals, such as doing more to protect the environment and reducing the political leverage of the Middle East. Says ExxonMobil Corp. Chairman and CEO Lee R. Raymond: "The key to security will be found in diversity of supply." In other words, whimsical though it may seem, we should strive to maintain a Goldilocks price for oil: It should be high enough to keep companies and countries investing in oil fields but not so high that it sends the world into a recessionary tailspin.

2. USE STRATEGIC RESERVES

The nation now has 599.3 million bbl. stored in underground salt caverns along the Texas and Louisiana Gulf Coast. That's enough to replace Iraq's oil production for at least six months. Yet this stockpile isn't being used correctly, and it never has been, many experts believe. In the 1991 Persian Gulf War, "oil prices were back to the normal level by the time the U.S. got around to releasing the strategic petroleum reserve," says energy economist W. David Montgomery of Charles River Associates Inc. We shouldn't make that mistake again. With oil prices already up, "we should release the stockpile immediately," he says.

Other experts argue that the reserve should be used as a regular hedging tool rather than being saved for extreme emergencies, which so far have never materialized. One idea: Allow companies to contract with the government to take out barrels of oil when they want to—as long as they agree to replace them later, along with a bit extra. That way, this big store of oil would smooth out glitches in supply and demand while also taking away some of OPEC's power to manipulate the market. There are similar reserves in Europe, Japan, and South Korea—for a total of 4 billion bbl., including the U.S.—that should be used in this way as well. And by making the reserves bigger, we gain more leverage to dampen the shocks.

3. BOOST INDUSTRIAL EFFICIENCY

After decades of concern over energy prices and the big improvement in the overall energy efficiency of America's economy, you would think that U.S. companies would be hard-pressed to find new gains. "In my experience, the facts are otherwise," says Judith Bayer, director of environmental government affairs at United Technologies Corp. UT discovered savings of \$100,000 in just one facility by turning off computer monitors at night. "People talk about low-hanging fruit—picking up a

dollar on the floor in savings here and there," Bayer says. "We picked up thousands off the ground. It's embarrassing that we didn't do it earlier."

Just last year, Salisbury (N.C.)-based Food Lion cut its energy consumption by 5% by using sensors to turn off lights in bathrooms and loading-dock areas and by installing better-insulating freezer doors. "The project saves millions a year," says Food Lion's energy-efficiency expert, Rick Heithold.

Even companies with strong efficiency track records are doing more. 3M Corp. has cut use of energy per unit of output by 60% since the Arab oil embargo—but is still improving at about 4% a year. One recent innovation: adjustable-speed factory motors that don't require energy-sapping brakes. The efficiency gains "help us reduce our operating costs and our emissions—and the impact that sudden price increases have on our businesses," says 3M energy manager Steven Schultz.

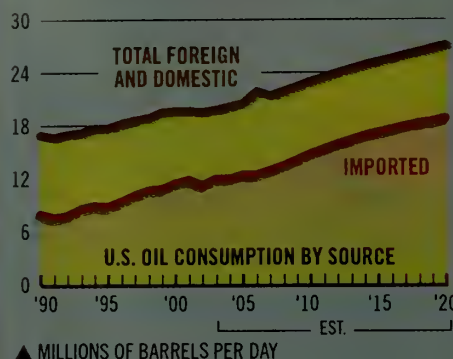
Last year, the New York Power Authority put in a digitally controlled power electronics system—essentially, a large garage packed with semiconductor switches and computers—in a substation that handles electric power coming in from Canada and northern and western New York. Along with conventional improvements, this vastly improved the system's ability to manage power. The state now has the capacity to transfer 192 more megawatts of available electricity, or enough to power about 192,000 homes.

The nation's entire antiquated electricity grid should be refashioned into a smart, responsive, flexible, and digitally controlled network. That would reduce the amount of energy required to produce \$1 of GDP by 30% and save the country \$100 billion a year, estimates Kurt E. Yeager, CEO of the Electric Power Research Institute (EPRI). It would eliminate the need to build dozens of power plants, cut carbon emissions, and slash the cost of power disruptions, which run about \$120 billion a year. Such a network would also break down existing barriers to hooking up new sources of power to the grid, from solar roofs on thousands of houses to small, efficient heat and power generators at businesses. And soon, it will be possible to rack up big efficiency gains by switching to industrial and home lights made from light-emitting diodes (LEDs), which can use less than one-tenth the energy of incandescent bulbs.

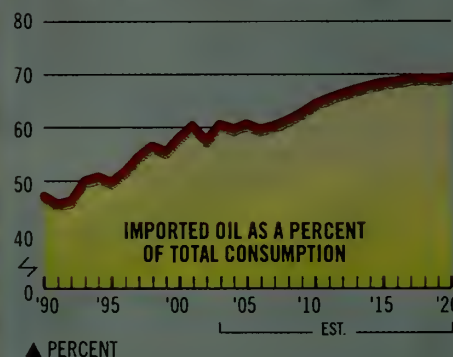
These are exciting developments, but what do they have to do with oil? The answer lies in the idea of fungible energy: Eliminate the need for a power plant running on natural gas, and that fuel becomes available for everything from home heating to a source of hydrogen for fuel-cell vehicles. A subset of the nation's energy policy, therefore,

WITHOUT NEW POLICIES:

OIL CONSUMPTION WILL KEEP GROWING...

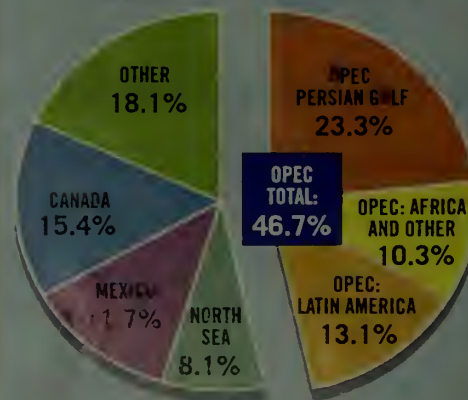


...AS U.S. DEPENDENCE ON IMPORTS INCREASES...



...TRANSFERRING WEALTH TO THE MIDDLE EAST

U.S. IMPORTED PETROLEUM BY SOURCE, 2001



Data: Energy Information Administration

— CERTIFIED PRE-OWNED LEXUS —



OTHER CARS ARE PRE-OWNED. BUT THAT'S WHERE THE SIMILARITIES END.

Truth be told, Certified Pre-Owned Lexus Vehicles have more in common with new cars. Like the Lexus of warranties that backs them for three years from your date of purchase or 100,000 total vehicle miles.* A complimentary loaner car.[†] Extremely competitive financing rates and lease terms.[‡] And, of course, there is one more important thing that separates a Certified Pre-Owned Lexus from other vehicles: They are only available at your local Lexus dealer. But, you shouldn't simply take our word for it. Come in for a test drive and see for yourself.



ONLY AT YOUR LEXUS DEALER

lexus.com

*See your Lexus Certified Pre-Owned dealer for warranty details. [†]Service loaner cars available on qualified warrantable repairs only. Only Tier 1 and 2 customers will qualify for the lowest finance rates. ©2001 Lexus, a Division of Toyota Motor Sales, U.S.A., Inc. Lexus reminds you to wear seatbelts, secure children in rear seat, obey all speed laws and drive responsibly.

should be doubling federal R&D dollars over the next five years to explore technologies that can boost energy efficiency, provide new sources of power, and, at the same time, address the problem of global warming.

4. RAISE CAR & TRUCK MPG

To make a real dent in oil consumption, the U.S. must tackle transportation. The numbers here dwarf everything else, accounting for a full two-thirds of the 20 million bbl. of oil the U.S. uses each day. And after rising from 15 miles per gallon in 1975 to 25.9 mpg in 1988, the average fuel economy of our vehicles has slipped to 24 mpg, dragged down by gas-guzzling SUVs and pickup trucks. Boost that to 40 mpg, and oil savings will top 2 million bbl. a day within 10 years.

Detroit says that's too high a goal. But the technology already exists to get there. In early January, General Motors Corp. rolled out "hybrid" SUVs that use a combination of gas-engine and electric motors to bump fuel economy by 15% to 50%. That same technology is already on the road. Honda Motor Co.'s hybrid Civic and Toyota Motor Corp.'s Prius, both big enough to carry four adults and their cargo, each top 45 mpg in combined city and highway driving.

Adding batteries and an electric motor to vehicles is just one of many ways to increase gas mileage. Researchers can also improve the efficiency of combustion, squeezing more power out of a given amount of fuel. In an approach called variable valve timing, they can adjust the opening and closing of an engine's intake and exhaust valves. Such engines, made by Honda, BMW, and others, are more efficient without sacrificing power. Researchers are now working on digitally controlled valves whose timing can be adjusted even more precisely. The gains? Well over 10% in many cases.

More improvement comes from reducing the power sapped by transmissions. So-called continuously variable transmissions eliminate individual gears so that engines can spend more time running at their most efficient speed. And auto makers can build clean-burning diesel engines, which are 20% to 40% more efficient than their gas counterparts.

Estimates vary widely on what it would cost to raise gas mileage to 40 mpg or higher for the entire U.S. fleet of cars. Assuming a combination of technologies, we figure the tab could be \$1,000 to \$2,000 per car, or \$80 billion to \$160 billion over 10 years. That's less than fuel savings alone over the life of the new vehicles. Carmakers already have the tech-



NURTURE NEW TECHNOLOGIES

Imagine the Great Plains as the Middle East of wind power

research program to explore these ideas, plus incentives to test fuel-cell technology in power plants and vehicles. President Bush's \$1.2 billion hydrogen initiative is just a start.

5. NURTURE RENEWABLE ENERGY

Tim Grieves shares a vision with a growing number of energy giants: harnessing the wind to generate cheap, clean power. The superintendent of schools in Spirit Lake, Iowa, Grieves has overseen the installation of two wind turbines that hum away in a field not far from his office. They generate enough juice to allow Spirit Lake to proudly call itself the only electrically self-sufficient school district in the nation. "We're not dependent on the Middle East," says Grieves. "This is just smarter."

Although less than 0.5% of our power now comes from wind, it's the cheapest and fastest-growing source of green energy. The American Wind Energy Assn. believes the U.S. could easily catch up with Northern Europe, where wind supplies up to 20% of power. In the U.S., that's the equivalent of 100,000 megawatts of capacity—or more than 100 large fossil-fueled plants. The Great Plains could become the Middle East of wind.

Without tax credits and other incentives, wind power couldn't flourish. But oil and other fossil fuels also have big subsidies. So we should either eliminate those or provide

nology. What we need now are policies, ranging from higher gasoline prices to tougher fuel-economy standards, that will give manufacturers and consumers incentives to make and buy these vehicles.

The ultimate gas-saving technology would be a switch to a completely different fuel, such as hydrogen. Toyota, Honda, and GM already are testing cars that use fuel cells to power electric motors. Such vehicles are quiet, create no air pollution, and emit none of the carbon dioxide linked with global warming. They also are expensive, and 10 to 20 years away from the mass market.

There's one other problem: Where would the hydrogen come from? The element must now be extracted from gas, water, or other substances at relatively high cost. But there are intriguing ideas for lowering the tab, such as genetically engineering bacteria to make the gas or devising more efficient ways to get it from coal. We need a strong

*Meet
The Sheraton*



*Service
Promise.*

MICHAEL

The Sheraton Service Promise ensures that if you're not entirely satisfied, we'll take care of it. And we'll make it up to you with an instant discount, points for our rewards program, even money back. And that's a promise.

Call 800-325-3535 or your travel planner.
Visit sheraton.com. Best rates, guaranteed.



Sheraton®

See for yourselfsm

MEMBER OF  STARWOOD PREFERRED GUEST®

Service Promise applies to hotel services in the Continental U.S. and Canada, excluding group transactions. Level of compensation is at the discretion of hotel management. Significant restrictions apply. See sheraton.com for complete details on Best Rates Guaranteed. © 2002 Starwood Hotels & Resorts Worldwide, Inc.

reasonable incentives for alternatives such as wind, solar, and hydrogen. Even if the new sources still cost more than today's power, continued innovation, spurred by the incentives, will lower the price. Moreover, having some electricity produced by wind turbines and solar panels helps insulate us from spikes in natural-gas prices. Some states now require that a percentage of power come from renewable sources. We should consider this nationwide, with a target of perhaps 15%, up from the current 6%.

6. PHASE IN FUEL TAXES

The main reason fuel-efficiency gains in the U.S. slowed in the 1990s is that the cost of oil—and energy in general—was so low. “Yes, we are energy hogs, but we became energy hogs because the price is cheap,” says Georgia State’s Dhawan.

Even though it seems like the market is working in this regard, it really isn’t. There’s widespread agreement that the current price of oil doesn’t reflect its true cost to the economy. “What Americans need to know is that the cost of gasoline is much more than \$1.50 a gallon,” says Gal Luft of the Institute for the Analysis of Global Security. But the invisible hand could work its magic if we include costs of so-called externalities, such as pollution or the tab for fighting wars in the Middle East. That would raise the price, stimulating new energy-efficiency measures and the use of renewable fuels.

The tricky part is pricing these externalities. Some economists peg it at 5¢ to 10¢ a gallon of gas. Others see the true cost as double or triple the current price. Just by adding in the more than \$100 billion cost

of having troops and fighting wars in the Persian Gulf, California State University economist Darwin C. Hall figures that oil should cost at least \$13 per barrel more. “That is an absolutely rock-bottom, lowball estimate,” he says. More dollars come from adding in numbers for the costs of air pollution, oil spills, and global warming.

Imagine, though, that in an ideal world, we could settle on the size of the externalities—maybe \$10 per barrel. We obviously don’t want to suddenly slap a \$10 tax on oil. Doing so would slice more than \$50 billion out of GDP and send the economy into a recession, forecasters calculate.

But phasing it in slowly, over 10 years, would give the economy time to adopt fuel-efficiency measures at the lowest cost. We should also consider additional taxes on gasoline, since a \$10-per-barrel price rise amounts to only about 25¢ per gallon of gas—not enough to make a big change in buying habits. This approach works even better if the revenue from those taxes is returned to the economy in a way that stimulates growth and productivity—by lowering payroll taxes, for example. Plus, there are big environmental benefits from reduced pollution.

There’s a fierce debate about whether the economy gains or

loses from such tax-shifting. Many economists agree, however, that the bad effects would be relatively small. “There may not be a free lunch, but there is almost certainly a lunch worth paying for,” says Stanford economist Lawrence H. Goulder.

If energy taxes prove politically impossible, there’s another way to achieve realistic fossil-fuel prices: through the back door of climate-change policy. Already, Europe is toying with carbon taxes to fight global warming and multinationals are experimenting with carbon-trading schemes to get a jump on any future restrictions. Even Republicans such as Senator John McCain (R-Ariz.) are pushing curbs on carbon dioxide. If the U.S. put its weight behind efforts to fight climate change, it could help push the entire world toward lower emissions—and moderately higher oil prices. The best approach: a combination of carbon taxes and a cap-and-trade system, wherein companies can trade the right to emit. That way, the market helps find the greatest reductions at the lowest cost. Economists figure that a \$100-per-ton tax on carbon emissions, for example, would equal a rise of 30¢ in the cost of a gallon of gas.

Under the Bush Administration, this, too, may be difficult to enact. What’s left are regulations and mandates. There may

be just enough political will to boost CAFE (corporate average fuel efficiency) standards for vehicles—and to remove the loopholes that hold SUVs to a lower standard. But we need a smarter rule than the current one.

One good idea: give companies whose cars and trucks do better than the fuel-economy target credits that they could sell to an auto maker whose fleet isn’t efficient enough. That way, “good” companies such as Honda are strongly motivated to keep improving technology. By being smarter about regulations and

mandates, “we could do a lot better than what we are doing now,” explains Stanford professor James L. Sweeney.

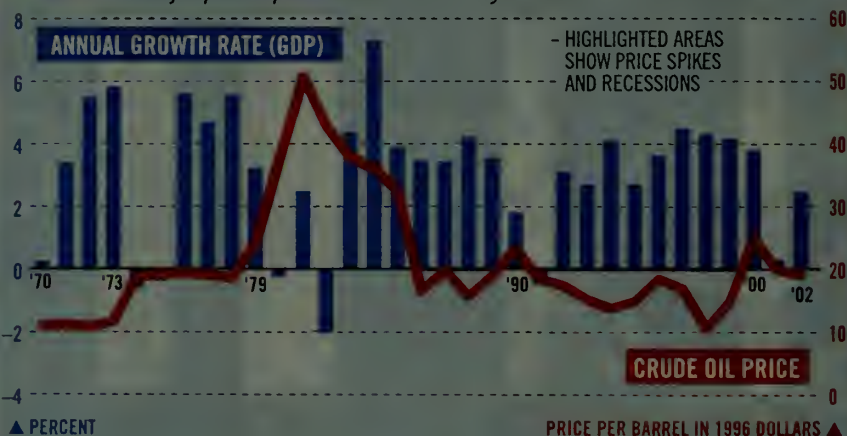
If we implement these policies, here’s what we’ll get: A reduction in projected levels of oil consumption equal to 3 million bbl. a day or more within 10 years. That means we could choose not to import from unfriendly countries (although they will happily sell their oil to others). In addition, oil-price shocks should be fewer and smaller, allowing us to avoid some of those \$50 billion (or more) hits to GDP. A more fuel-efficient economy will free up oil for countries such as China and India, notes Platts Global Director of Oil John Kingston. And the technologies we develop will help those economies become more efficient.

Economists will argue about the costs of these measures. But the benefits of greater energy efficiency and reduced vulnerability should, over the long run, outweigh the \$120 billion (or more) cost of getting there. Painful though they were, the oil shocks of the 1970s sent the U.S. down the road toward a more energy-efficient—and less vulnerable—economy. Our task now is to find a smoother path to continue that journey.

With Laura Cohn in Washington, Stanley Reed in London, David Welch in Detroit, and Adam Aston in New York

WHY WORRY ABOUT OIL PRICES?

Four times over the past 30 years—in 1973, 1979, 1990, and 2000—major price spikes were followed by economic recession:



Data: Commerce Dept., Energy Information Administration

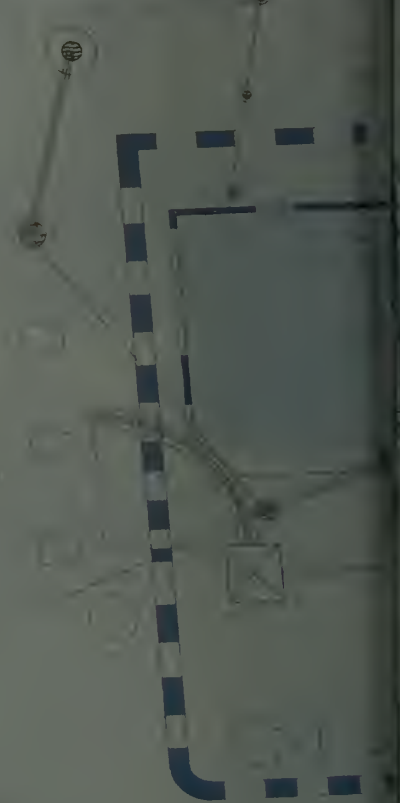


RAM:

Attempt by certain large vendors to shove their proprietary technology solutions down your enterprise.

You already have an infrastructure. You don't want someone selling you a new one. But you need to get all those different systems working together. So talk to us. We live and breathe mixed environments. That's why our Nterprise™ solutions are just what you need. Scalable. Reliable. Always available. Our consultants and partners have years of real-world experience getting diverse systems to play ball together. So, to get your diverse systems working towards a common goal—creating revenue—call us at 1-800-209-3100 or visit <http://www.novell.com/nterprise>. ☎ WE SPEAK YOUR LANGUAGE.

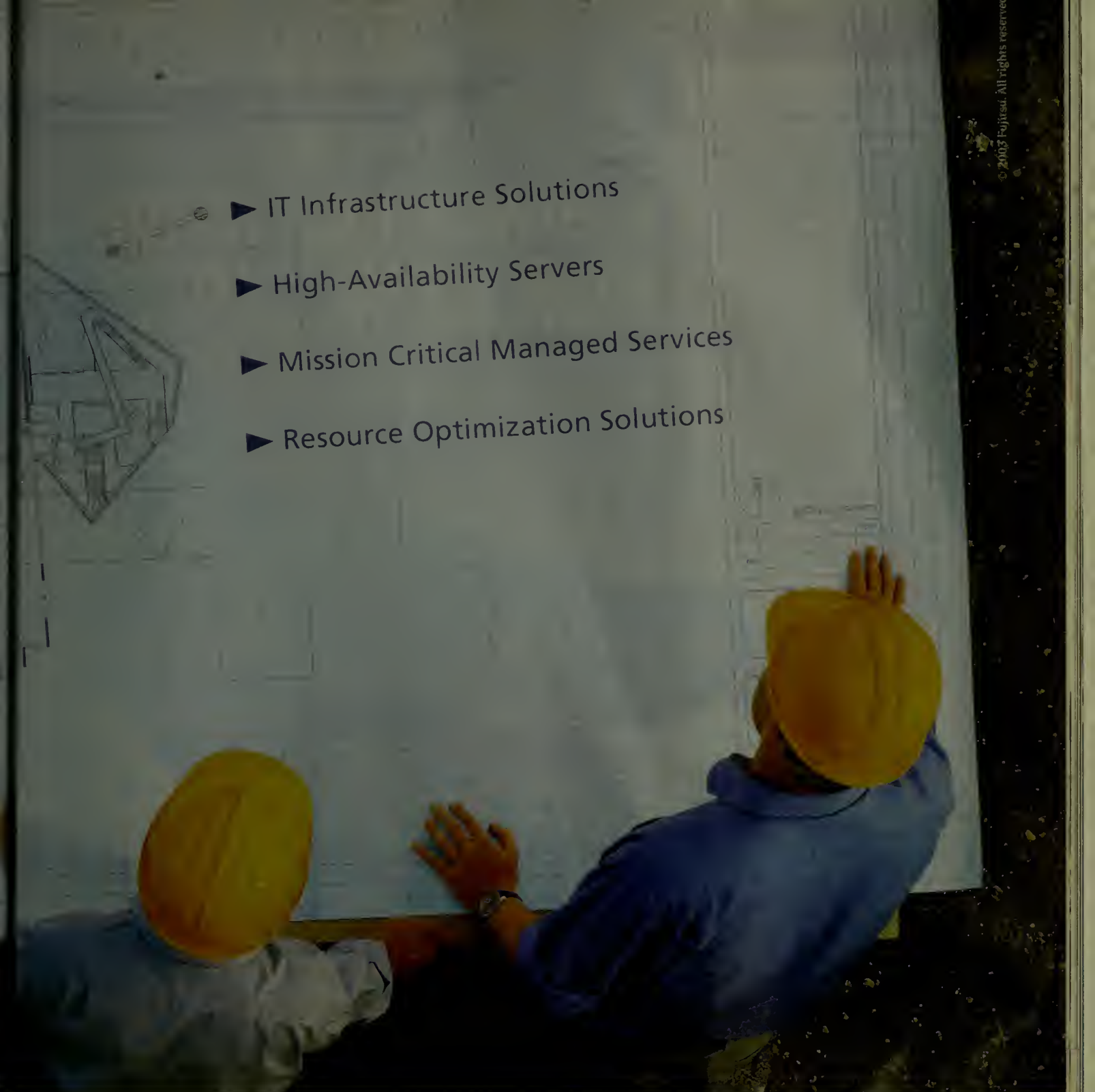
Novell.

- 
- ▶ Value Management
 - ▶ Business Intelligence & Analytics
 - ▶ IT Portfolio Management
 - ▶ Application Outsourcing
 - ▶ Content Management
 - ▶ IT Effectiveness

ROI/Value Management

BUILD MORE BUSINESS VALUE INTO YOUR IT INVESTMENTS

With mounting profit pressures and demands for cost control, every investment must produce rapid and predictable business value. As the world's third largest IT company, Fujitsu can show you how to improve your return on IT. Our experienced consultants will align your technology with your business strategy for improved performance. And our enterprise value management, application outsourcing and IT effectiveness experience can help maximize the value from IT while reducing total IT costs up to 30% in three years. Along with the right blueprint, a solid infrastructure forms the foundation for business effectiveness. By eliminating "server sprawl," our exceptionally reliable and scalable UNIX servers will lower TCO and improve productivity. For free white papers showing how to maximize your Return On IT, visit us.fujitsu.com/ROIT. Working together, we can accomplish anything.

- 
- ▶ IT Infrastructure Solutions
 - ▶ High-Availability Servers
 - ▶ Mission Critical Managed Services
 - ▶ Resource Optimization Solutions

FUJITSU

THE POSSIBILITIES ARE INFINITE

us.fujitsu.com

People

From a practical point of view, the Jewish Museum in Berlin has a few problems. For one thing, it doesn't have enough bathrooms, and its zigzag walls are a curator's nightmare. But the building, which suggests a distended Star of David, is aesthetically eloquent. Haunting and stark, it is at once an emotional work—a tribute to Jewish life in Germany and a Holocaust memorial—and a cutting-edge piece of architecture. And it resonates with the public: A million people have visited since the museum officially opened about a year and a half ago, making it the second most popular in the German capital after the Pergamon, which houses the Altar of Zeus from the Greek temple. "If it were an ordinary building, a box with square walls and good light, we wouldn't get that many visitors," says W. Michael Blumenthal, director of the Jewish Museum. "A significant number come to see the building."

The success of the Jewish Museum brought Berlin-based architect Daniel Libeskind so much acclaim that when New York City authorities solicited proposals to rebuild the World Trade Center site, they specifically asked him to participate. Libeskind, who is the child of Holocaust survivors and emigrated to New York when he was 13, is now one of two finalists; a decision on how officials will proceed should be announced by the end of February.

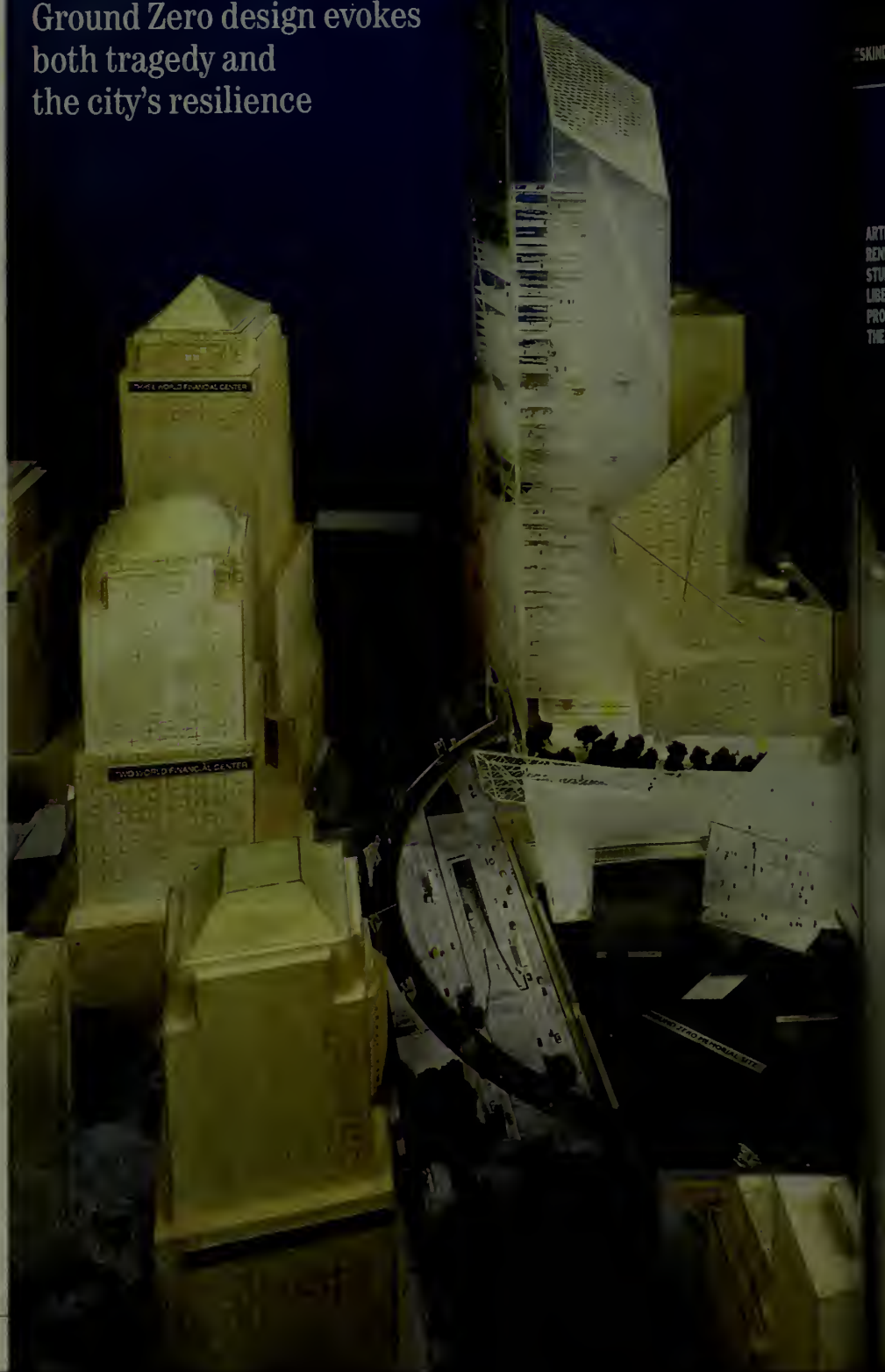
The widespread praise of what was actually his first commission has also led to numerous other high-profile projects around the world for his Studio Daniel Libeskind. The architect who gave the Jewish Museum a Garden of Exile to symbolize the diaspora has shown he can also design retail space, even gas stations. While many of his assignments have been museums, such as extensions of the Victoria & Albert Museum in London and the Denver Art Museum, he is also designing a concert hall in Bremen, Germany, a convention center in Tel Aviv, and shopping centers in Germany and Switzerland.

In part because of this unexpected growth, Libeskind, 56, typically forms joint ventures with local architectural firms to build his projects. His partner and wife, Nina, oversees these relationships. She describes the process this way: "First the partner comes to us, we bond, then we send out a team to the partner's office." The two firms divide the work and the proceeds 50-50. The studio, which employs about 130 people around the world, has averaged about \$12 million to \$14 million in rev-

URBAN DESIGN

A TOWERING VISION FOR NEW YORK

Daniel Libeskind's Ground Zero design evokes both tragedy and the city's resilience





LIBESKIND

ARTIST'S
RENDERING OF
STUDIO DANIEL
LIBESKIND'S
PROPOSAL FOR
THE WTC SITE

venues over the past few years, she says.

If New York officials decide to proceed with Libeskind's design, however revamped, other architects will certainly be involved: Someone else would conceive the memorial itself as well as major parts of the project, such as the office buildings. "It has to be done by many different architects. That's the way New York was built," says Libeskind. Either way, he and his wife (and the youngest of their three children) will return to New York, the city he considers home, and open an office there, a move they had planned months earlier.

Even though the WTC is 100 times the size of the 120,000-square-foot Jewish Museum, both pose a similar conceptual problem: The buildings must confront tragedy and trauma yet still project a vibrancy and resilience. Unlike many of the other plans, which focus on the skyline, Libeskind's Memory Foundations grows out of the 70-foot-deep excavation site at Ground Zero. "Many of the designs depend on the one grand gesture," Libeskind says. "But they did not really address the issues that go beyond architecture—social issues, how cities really evolve.... You have to start from the bottom up. Quite literally, that's what I did." His design would preserve the entire vast concrete basin dredged from the Hudson River, which was the foundation for both towers, as a place of quiet and meditation. A museum would provide a "filter" between the commercial activity and the "hallowed ground" below. A curved promenade would allow visitors to view the site from above.

A cluster of towers, with facades and roofs angling toward Ground Zero, would offer some 7.4 million square feet of office space, about 70% of what was lost. The tallest of the towers, rising to 1,776 feet, would be largely symbolic, given over mostly to whole floors of gardens, "because they are a constant affirmation of

life," Libeskind says. He also allows for residential construction on the perimeter, about 1,750 new apartments, as well as ample retail, performance, and park space. The plan, though, will likely be modified so that construction doesn't extend as deep as he envisioned. The project must "accommodate bustling life all around and the optimism of New York, not just looking back," says Libeskind, who shares finalist honors with the New York-based group known as THINK. That proposal includes two towers of steel lattice that would rise 1,665 feet.

Designing the new World Trade Center would mark another step in Libeskind's transition from architecture historian and writer to leading practitioner.

DANIEL LIBESKIND

BORN May 12, 1946, in Poland to Holocaust survivors; emigrated to the U.S. as a teenager.

EDUCATION BA, architecture, Cooper Union, New York City, 1970; MA in history and theory of architecture, Essex University, Colchester, Britain, 1972.

CURRENT PROJECT

One of two finalists to design new development on the World Trade Center site.

CAREER PATH After more than a decade as an itinerant lecturer, won a competition in 1989 to create the Jewish Museum in Berlin, his first building. Went on to design projects such as an extension to the Victoria & Albert Museum in London and shopping centers in Germany and Switzerland.

DRESS CODE Rarely seen in anything other than black, with black cowboy boots.

FAMILY Married to Nina, the firm's business manager; three children

Libeskind, who was born in Poland, recalls arriving aboard a ship named the Constitution and sailing past the Statue of Liberty: "When you're coming as an immigrant, that whole weight of history, of the freedoms that are possible—it's something miraculous," he says.

Today, while he's every bit the chic international architect in a black shirt, black pants, and black-rimmed glasses, Libeskind is an unabashed patriot. His WTC presentation begins and concludes with a picture of the Statue of Liberty. Libeskind studied architecture at New York's prestigious Cooper Union, and before winning the Jewish Museum commission in 1989, he had taught at most of the world's best architecture schools. But it was only with the museum that he put theory into practice.

The Jewish Museum was probably as good a preparation for rebuilding the World Trade Center as anyone could have had. Libeskind spent a decade battling philistines, budget cuts, and bureaucrats to construct the zinc-clad structure. Although his design won a high-profile competition, "nobody expected it to be built," he says. The city of Berlin was broke and even canceled the project at one point. Libeskind attributes



COMPUTER MODEL OF A LIBESKIND SHOPPING CENTER IN SWITZERLAND

the museum's success to his decision in 1989 to move to Berlin and oversee the project personally. As Blumenthal says, "Libeskind is a pretty good politician." The architect is proud that the \$40 million building was under budget, too. At one point, Libeskind had hoped to include slanted walls. After a top Berlin official argued it would be too expensive, Libeskind gave in: The idea, while interesting, wasn't essential.

Certainly, plenty of controversy and politics swirl around the WTC site. Although the Lower Manhattan Development Corp. selected the two finalists, the land is actually owned by the Port Authority, which is headed by the governors of New York and New Jersey. The Twin Towers, however, had been

leased to developer Larry Silverstein, who has indicated he doesn't like any of the plans. All of the parties will be involved in the final decision. The city's citizens have some ideas, too: Libeskind has received hundreds of e-mails about his design, not all supportive. He says he answers every one—for now, anyway. Then there is the matter of money: Both proposals would run in the billions, and there will be great pressure to scale them back. Given all of these constraints, the two designs are perhaps best thought of as "inspirational guidelines," says Rick Bell, the executive director of the American Institute of Architects' New York Chapter.

As with the Jewish Museum, Libeskind approached the Trade Center com-

petition by studying history. Before designing the museum, he read Nazi files on residents from the surrounding neighborhood who were deported to concentration camps. For the Trade Center, Libeskind, who became a U.S. citizen in 1965, reread the Declaration of Independence (hence the 1,776-foot tower) and fiction about New York by 19th century authors such as Herman Melville and Walt Whitman. He says his proposal aims to "create a dense and exhilarating affirmation of New York," of the kind Whitman portrayed in *Leaves of Grass*. That sense of the city's past could well help him play an important role in its future.

By Jack Ewing in Berlin, with Robert McNatt in New York



THE PLANNED EXTENSION FOR LONDON'S VICTORIA & ALBERT MUSEUM



THE DESIGN OF BERLIN'S JEWISH MUSEUM HAS LURED BIG CROWDS



(FOOD)



(FEAST)



Whether you prefer traditional Japanese cuisine or more familiar Western fare, our chefs will make you very happy you've chosen the world-renowned service of ANA. Because in Japan, we refuse to believe there's an altitude limit on good food.

ENJOYED DAILY TO JAPAN AND ASIA.

ANA

A STAR ALLIANCE MEMBER



1-800-2-FLY-ANA | WWW.FLY-ANA.COM

RICHES TO RAGS

After quitting their jobs and giving their retirement money to A.G. Edwards, Robinson (center) and other ex-P&G workers lost health benefits and much of their savings



WIPED OUT

BY DEAN FOUST

For years the work was back-breaking at the Procter & Gamble Co. detergent plant in Augusta, Ga. Ronald B. Robinson and other warehouse workers used to joke that P&G stood for "Push & Grunt Slave Camp." After the plant opened in 1962, they had to grab and stack hundreds of 42-pound cases of Tide, Bold, and Gain coming off the conveyor belt each hour, all in the sultry climate of eastern Georgia. "You'd go out in the afternoon and have sweat soaked all the way through your leather boots," he recalls. But Robinson, a burly bear of a man, persevered for nearly 30 years: The pay and benefits were among the best a blue-collar worker could find in Augusta and the job got easier as P&G automated the plant. After suffering a heart attack in 1995 at the age of 50, though, he began thinking about early retirement. "I just didn't think I could do it anymore."

The escape hatch: His company retirement account, flush with P&G stock, had soared beyond his wildest dreams. By late 1995, Robinson was sitting on \$738,000, so his brother-in-law introduced him to a church friend, William F. Gibbs Sr., a stockbroker who headed the Augusta office of A.G. Edwards & Sons Inc. Robinson says Gibbs

dazzled him with spreadsheets showing that if he quit and rolled over his account to Edwards, he might be able to earn a heady 21% a year by investing in undervalued blue-chip stocks. With returns like that, Robinson says Gibbs told him, he could pull out \$65,000 a year for living expenses—a 50% raise over his P&G salary—and still become a billionaire by age 90.

Robinson put his faith in Gibbs, cashed out from P&G, and set off on a course that would devastate not only his life but those of scores of other P&G workers. Gibbs became the Pied Piper of the P&G plant—eventually persuading as many as 90 of the 300 workers there to follow in Robinson's footsteps by quitting their jobs and transferring their nest eggs to Edwards. But when Gibbs's blue-chip strategy faltered, he began shifting the tens of millions he

managed for the retirees into tech stocks, then riskier Internet stocks, and finally into options on tech stocks—with increasingly disastrous results.

Now, with their jobs, their company health insurance, and most of their life savings gone, many of the ex-workers are struggling to ward off repo men and bill collectors—and fighting to win compensation from A.G. Edwards. They claim that Gibbs changed their portfolios without permission and put them into unsuitable stocks given their level of investment knowledge and their age. In June, the New York Stock Exchange is

Finance

scheduled to hear the first of what will be a long string of arbitration cases. "I went to P&G without a dime, and 25 years later I had a million dollars. Now I'm broke again," says one client, Kenneth Terry Shell, sitting at his dining-room table, his eyes welling. "There have been times if I could have reached for a gun, I would have."

In the long downside of the great bull market, stories abound of investors who were wiped out when the bubble burst, or of brokers who believed in a turnaround and refused pleas to cash out. But rarely has a tale from the late 1990s involved so many people from not just one town, but from one company. They were

blue-collar workers who, by dint of hard work and good luck, amassed fortunes and then lost them.

Over a 10-day period, *BusinessWeek* attempted to obtain responses from Edwards to the ex-workers' complaints. But Edwards declined, saying it can't comment on the specific allegations because the cases are in arbitration. A spokeswoman, though, did supply a written statement in which the firm says, "Unfortunately, the market suffered significant declines and is currently at levels we haven't seen since 1996... We believe these clients understood the risk of investing in the stock market." The statement adds: "We have adequate measures in place to ensure our branch managers adhere to company procedures, but do not discuss them publicly." Contacted by phone, Gibbs, who retired from the firm in January of



Bill Gibbs

PIED PIPER

Gibbs persuaded as many as 90 of P&G's 300 workers in Augusta to invest with him

... were blue-collar
... kers with fortunes in
... G stock. Then they
... their faith in an
... Edwards broker

(LEFT) PHOTOGRAPH BY ANN STATES

last year, declined to comment and referred all questions to Edwards.

Many people caught the stock-market fever of the bubble years, but Gibbs may have had a deeper reason for relentlessly soliciting more customers: He was suffering from multiple sclerosis and anxious about his financial future. Friends say Gibbs, who was still in his mid-40s when he began soliciting the P&G workers, began to worry about how much longer he would be able to work. So even as his stamina slipped, his production accelerated, boosting his commissions and bonuses from \$231,226 in 1996, to \$550,268 in 1997, and \$856,505 in 1998 through Oct. 10, according to a mortgage application he submitted in

Finance

1998. One friend, marveling at his ceaseless quest for more business, remembers Gibbs saying, "I don't have the luxury of time. I've got to do it."

The Augusta saga is an uncharacteristic black eye for the 116-year-old St. Louis-based Edwards, which has honed a reputation for being more conservative than its larger Wall Street brethren. The firm tied for first place in J.D. Power & Associates Inc.'s survey of customer satisfaction among full-service brokerage firms last year. But despite its wholesome Midwestern image, Edwards was slapped with one of the biggest fines ever levied by the NYSE—\$400,000—last October. The violations included failing to supervise adequately 21 branch managers and their assistant managers in 17 offices who handled their own customer accounts. This lack of oversight allowed the managers to be, in effect, their own compliance officers. Under its policy, the Big Board won't name the branches or say whether Augusta was one of them.

An Edwards spokeswoman says the firm was "glad to resolve these issues." Since the fine, she says, Edwards has been "working with an outside consultant to review our practices in these areas and will be implementing these suggestions as appropriate."

INTERNAL CLOCK

In a 1997 letter, Gibbs pushed hard for clients. He had MS and feared for his future, friends say

At the epicenter of the events in Augusta is Gibbs, a 6-foot-3-inch former Army sergeant who went to high school and college in Troy, Ala. Married with one son, he started at Edwards as a broker in Florida in 1990. In 1993, after a brief stint with First Union Brokerage Services Inc. in Atlanta, Edwards rehired him to open the firm's first office in Augusta. With his reddish-blond hair and athletic good looks, Gibbs projected an image of trustworthiness; he reminded one client's wife of actor David Caruso of *NYPD Blue* and *CSI: Miami* fame. On the other hand, he was no numbers guy. In his securities-registration forms, he said the subject he had enjoyed the least in college—and scored the lowest grades in—was math. But with his doggedness in pursuing new clients, Gibbs's career took off.

Gibbs had a persuasive pitch for new clients: He promised to use the time-honored Dogs of the Dow strategy, which calls for buying shares of the five companies in the 30-stock Dow Jones industrial average with the highest dividend yields at the beginning of each year and selling the ones from the year before. The high yields are often the by-product of a recent drop in the companies' stock prices. Given the staying power of these blue chips, investors are betting that they will rebound. Between 1973 and 1998, the Dogs returned more than 20% a year. In the early '90s, Edwards started promoting what it dubbed the Dow Dividend Strategy, sometimes expanding it to 10 Dogs, and even programming computers in its branches to display the Dogs of the day.

For Robinson, the first P&G retiree to enlist, the Dogs did great. In early '96, he opened a rollover Individual Retirement Account with Gibbs, who then sold the P&G stock and bought the five Dogs of the moment:

WILBER OWENS

Opening Balance \$676,185

Closing Balance \$230,682



The 63-year-old son of a sharecropper, Owens dropped out of school after fifth grade to help his mother make ends meet. He worked a bicycle courier, an auto-parts store before the then-P&G plant hired

him in his mid-20s for the warehouse. Having given up his P&G medical benefits, he worries he can't pay for his wife's growing problems with diabetes. He may go back to work—maybe as a courier for another auto-parts store.

Chevron, General Electric, General Motors, International Paper, and 3M. Robinson's account grew rapidly—his initial \$738,000 would peak at \$1.3 million in 1998, even as he drew \$5,500 a month for living expenses. In his free time, he says, "I did all the things Bill Gibbs told me to do: fish and play golf."

Soon Gibbs lined up Robinson's help in hooking more clients. Robinson allowed Gibbs to show his monthly statements to other P&G workers. He also agreed to come and say grace at the dinners Gibbs began hosting at local country clubs to recruit P&G workers. According to a friend, Gibbs considered P&G workers "the perfect clients," thanks to their

hefty portfolios and a lack of investment experience that made them "low maintenance." In fact, none had ever bought a stock before, and few had even invested in a certificate of deposit at a local bank. "Bill Gibbs saw a goose with a golden egg," says Shell, an ex-worker-turned-client. "He knew P&G had one of the best [retirement] plans in town, and he jumped on it."

For the workers, the only apparent catch was that they had to quit their jobs.

A.G. Edwards & Sons, Inc.
INVESTMENTS SINCE 1887

1237 Augusta West Parkway
Augusta, Georgia 30909
(706) 869-1061
Toll-free (800) 955-1061

Dear Al:

I have enclosed an unrealized gain/loss report on your account. I hope you are pleased with the overall results and will share your success with others you know.

Do you know anyone else at Procter & Gamble or retired from Procter & Gamble that needs to be in a solid investment program like yours? Don't we need to help them worry less and enjoy more of their retirement years?

Help me to help them! I have enclosed several of my business cards for you to share with a friend. I would also be happy to send them information on the Dow Strategy and invite them to a seminar if you will call me with their name and address.

Sincerely,

Bill

William F. Gibbs, Sr.
Branch Manager
Vice President-Investments

ANDREW GREEN

Opening Balance \$1.31 MILLION Closing Balance \$279,042

After two heart attacks in 1995, he was ready to cash out of P&G. But with his nest egg largely gone, his wife says the stress has brought them to the brink of divorce. Now 54, he was forced to go back to work as a salesman, putting 100,000 miles on his truck last year, earning only a fraction of his old P&G salary. In fact, P&G is one of his customers, making for some awkward sales calls. "It's embarrassing," he says.

MATTIE LUCHEY

Opening Balance \$811,405 Closing Balance \$131,099

Now 67, Luchey raised five children by herself after her husband died in 1966. In 1975, she became one of the first blacks at the plant when P&G hired her for the room. She knows little about investing: When asked about one of the stocks she owned, eSoft Inc., she says, "[Gibbs] said it was something to do with computers." She's back at work—cleaning houses two days a week.



That was the only way they could switch their nest eggs from P&G. Although the workers thought P&G was an excellent employer, they were glad to leave the hard work behind. Wilber Owens recalls his early years spent unloading railcars of raw materials and being covered with powdery substances and drenched in sweat. "It was like having snot all over you. I wanted to quit every day. But I knew I had something I could not match anywhere else in Augusta."

Indeed, this hardscrabble city of 100,000 on the Savannah River, famous for its storied Augusta National Golf Club and the annual Masters Golf Tournament, is a far cry from its TV image of manicured greens and antebellum gubhouses. It lost much of its industrial base long ago and now frets over a nearby former weapons factory that could be a target of terrorism, while its downriver cousin on the Atlantic coast—Savannah—booms with tourism. The city is dotted with tiny '60s-era ranch houses with chain-link fences.

One by one, P&G workers not only allowed Robinson to Edwards, but enthusiastically spread the gospel to others. At Gibbs's request, another worker-turned-client, Ronnie Chance, agreed to attach a giant copy of Gibbs's business card to the side of an antique Ford he drove. So successful were the recruiting efforts that P&G plant officials privately worried that the exodus of veteran workers was cutting the plant's productivity. "There was concern about a loss of the skilled employees that the plant needed," says a P&G spokeswoman.

And with a boost from Edwards com-

mercials on local TV, Gibbs didn't stop with P&G. At their peak, Gibbs and his assistant, Susan H. Saccone, who had started as a secretary in 1995 and worked her way up to broker, were managing as many as 1,000 accounts worth a total of \$200 million, including an account for the Presbyterian church Gibbs attended. As their client base swelled, Edwards began flying brokers in from as far as Pennsylvania and New Hampshire to learn from his Dow presentations.

Initially, the P&G retirees were in clover. Gibbs arranged for most of them to receive annual distributions—which he called salaries—of 9% of their initial account balances. Shell used his checks to splurge on a \$23,000 bass boat, and then, out of gratitude, drove to Gibbs's office to present him with his first catch. Mattie H. Luchey, 67, treated herself to a vacation in Alaska. And after years of serving as a part-time pastor of a small church, Bennie Holmes took an unpaid post across the river in South Carolina as senior minister at Silver Bluff Missionary Baptist Church, one of the country's oldest black Baptist churches. Meanwhile, Edwards made

At his peak, Gibbs was in charge of 1,000 accounts worth \$200 million, including one for his own church

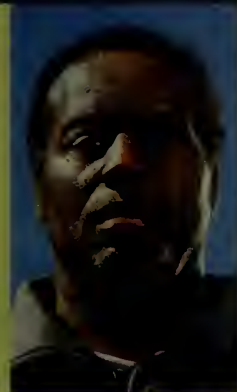
BENNIE HOLMES

Opening Balance \$737,977

Closing Balance \$131,228

He used his early retirement to become the full-time minister of one of the oldest black Baptist churches in the country. The position is unpaid, but he receives a "love offering"

from the small, mostly poor congregation every few weeks. Holmes, 57, now faces the prospect of giving up the position to find paying work. He remembers discussing the Scriptures with Bill Gibbs in their first meeting.



Gibbs an associate vice-president in 1999—and rewarded him with trips to the Mediterranean and to the Serengeti Plain game reserve in East Africa.

But for all Gibbs's professional success, the onetime scratch golfer and avid hunter was wrestling with health problems. Years earlier, after temporarily losing his eyesight while out jogging one day, Gibbs was diagnosed with MS, according to friend and ex-client Glen W. Johnson. After a brief remission, the disease was taking a toll by the mid-1990s, but he did his best to soldier on. "He realized it was catching up to him," says Johnson. "Bill said, 'I may have to get in a wheelchair pretty soon, but I'm trying to put it off as long as I can.'"

Then in 1999, Gibbs suddenly had another worry: Just as he was enjoying his biggest success in winning new business, the Dogs went astray. After returning 20.5% in 1997, the five Dogs earned just 12.3% in 1998—and lost 4.5% in 1999, a year in which the Dow itself surged 26.9% and the tech-heavy Nasdaq soared 86%. More important, the returns weren't enough to cover the "salaries" that the P&G clients received, so their funds began draining away. In any case, Gibbs hadn't been that faithful to the Dogs, often substituting other Dow stocks, according to clients' monthly statements. By that November, Gibbs began dropping Dow stocks altogether and buying tech stocks such as Intel, Cisco Systems, and Sun Microsystems.

The problem for Gibbs is that he was putting the retirees in stocks that were far too risky. The ex-workers were classified as "growth conservative" investors

The retirees were "growth conservative" clients, but they say Gibbs put them in risky stocks as NASDAQ peaked

when they opened their accounts, but Gibbs was now buying them "growth aggressive" stocks. Nearly all the accounts were nondiscretionary, meaning Gibbs had to ask permission by letter or phone or in person to buy stocks outside his mandate, but the clients say this wasn't always done.

And unfortunately for his clients, Gibbs moved away from the Dogs just before the tech bust. Four days before Nasdaq peaked on Mar. 10, 2000, he spent \$11 million to buy nearly 190,000 shares of PSINet; the stock quickly began plunging. Clients, suddenly worried, say Gibbs assured them a relative who worked at PSINet was promising that the now-bankrupt Internet provider's future was bright. "Susan [Gibbs's assistant] said, 'Don't worry. Bill just talked to his brother-in-law. They're hiring people to handle all the business they were going to get,'" says Shell. Saccone, who still works for Edwards in Augusta, declined comment.

As their portfolios began crumbling, the ex-P&G workers began angrily confronting Gibbs. In some instances, he went on the offensive, sometimes challenging clients who questioned his judgment by threatening to cut them loose. He told some clients, "If you're going to have a problem with me making you money, then we've got problems," recalls one former friend. In other cases, Gibbs responded by invoking the words of retail magnate Sam Walton—that you don't lose money until you sell. When Robinson, whose account had fallen to \$1 million, asked him to liquidate losing tech stocks, he says Gibbs replied, "If you sell now, you've lost \$300,000." And

threatening bodily harm to Bill Gibbs," recalls Robinson. Some began pointing fingers at Robinson for recommending Gibbs. "It got bad," he recalls. "A lot of them blame me because they feel like I opened the door to something bad."

All the while, Gibbs was wrestling with his disease. He began walking with a cane and Johnson, the friend, says Gibbs was so frustrated by the lack of success he was having with conventional treatments that he began contemplating radical treatments, including bee-sting therapy. As 2001 rolled on, Gibbs became less and less available to his

the stress of seeing his savings disappear. Two other ex-clients have filed for bankruptcy. Shell had his boat repossessed, and handed his mobile home—and payments—to his mother so he wouldn't lose his only residence. His truck disappeared from his front yard one day—repossessed—until his uncle "bailed me out," he says. And with his savings now down to \$65,000, Bennie Holmes may have to give up his full-time ministry at Silver Bluff to return to work. "It has affected my teaching," Holmes says as he sits in the cold, darkened sanctuary one morning. "People can see something's wrong."

Many of the workers may face more bad news—from the Internal Revenue Service. If they stop or change their distributions before taking them for at least five years, as many will have to, a number of younger ex-clients may face early-withdrawal penalties of 10% of the sizable sums they have drawn, plus interest. These penalties could range from \$30,000 to \$90,000, according to Edward J. Dovin, an Atlanta lawyer handling many of the claims.

Edwards has begun to quietly make amends. In the past 15 months, it began offering settlements to some of Gibbs's clients, including some of the ex-P&G workers and his old church, First Presbyterian Church of Augusta, which agreed to accept \$332,048 in December, 2001, for undisclosed losses. Most of the other retirees are seeking redress through arbitration, the only recourse for brokerage clients. It could take years to resolve so many.

Meanwhile, Gibbs, 51, has sold his home in Augusta and moved to a house he bought in 1998 in the North Carolina mountains. In the past year, he has made at least two trips back to Augusta: Former clients saw Gibbs—who at the time had grown a shoulder-length ponytail—twice last year at the weddings of mutual friends. Robinson says his wife refused to let him approach Gibbs. "She was afraid of what I'd say or do," he says.

Ironically, if Gibbs had stuck with the Dogs, all the retirees would be far better off because the Dogs gained 10.2% in 2000 before losing just 4% in 2001 and 10.5% last year. Instead, Robinson and the other P&G workers, who thought they might one day be billionaires, now must scramble to make ends meet. And the weight of that challenge suddenly makes lifting heavy boxes look like child's play. ■



STAY THE COURSE

Gibbs's assistant was left taking angry calls as the market fell. Clients claim she discouraged them from liquidating their accounts

clients, so Saccone handled the increasingly hostile calls.

For many retirees, the final straw was the market crash after the September 11 attacks. The next week, Vicki Green drove to the Edwards branch, where she learned that her husband Andrew's \$1.31 million portfolio had fallen below \$300,000. "I was crying," Vicki says. "I said, 'Liquidate it now.'" But Saccone persuaded her to stay the course. "A week later Susan called as if nothing had happened, saying, 'I have a tech stock to put you in.'" For Shell, the news was worse: His account, worth \$816,237 when he left P&G, was down to \$48,107 by the time he closed it. After a screaming match with Saccone, according to Shell, "She said, 'All I can tell you is we can't pay your salary anymore. There's nothing we can do.'"

The Edwards ordeal has taken both a financial and physical toll on the P&G workers. Robinson says he has suffered three more heart attacks in the past seven years, which he attributes in part to

Finance

when Robinson's account shrunk to \$800,000, then \$700,000, then \$600,000, he says, Gibbs told him each time, "You haven't lost anything. It's all on paper." With his account down to \$500,000, then \$400,000, Robinson says he was driving to the Edwards office regularly to close his account. But he was always talked out of it. "Bill's favorite saying was, 'On the way back to a million,'" sighs Robinson.

By now the P&G retirees were panicking. Monthly gatherings that several held at a local steakhouse turned into blame sessions. "Some folks were



How do you get daily updates
on your business health?

Help departments set
well-defined objectives?

And respond quickly to
changing market conditions?

SAS® is all you need to know.

Only SAS provides a complete view of your
company — one that brings together Finance, HR
and other business units to meet strategic goals.
So you can keep stakeholders happy, employees
productive and competitors on the defensive. To
find out how leading companies are reaping the
rewards of SAS enterprise intelligence, call toll free
1 800 270 5722 or visit www.sas.com/enterprise

The Power to Know



THE INTERNET

EXPEDIA: CHANGING PILOTS IN MID-CLIMB

While the travel biz limps along, Expedia had record sales—and profits—in 2002. Then the CEO quit

Richard N. Barton was leading a charmed life. At 35, he ran one of the most successful Web businesses on the planet, online travel agency Expedia Inc. He harbored soaring ambitions. He saw Expedia taking control of much of the travel business, dictating terms and prices to airlines and hotel chains alike. In the past year, he had outmaneuvered none other than consummate dealmaker Barry Diller, chairman of USA Interactive, a 62% owner of Expedia. When Diller tried to buy the rest of Expedia, Barton's board thwarted him. Barton wasn't yet the king of travel, but he sure was a powerful prince on the rise.

And yet, as Expedia prepared to announce record sales and earnings for a breakout 2002 on Feb. 5, Barton did something shocking: He quit. The travel industry, which had come to view the hard-charging Barton as a rising force for years ahead, was left wondering what happened. Barton, who has joined the board of USA Interactive (USAI) and remains on Expedia's board, isn't providing many clues. He says simply that he, his wife, and children will pursue a more peaceful life for the next year or two in Italy and France. "The world for me is not nec-

essarily creating this business," he says.

But sources within both companies say friction between Diller and the young CEO grew as they battled for control last year. That tension didn't evaporate after Barton prevailed. Anything but. It was clear to people involved that Diller would eventually try again. When Barton quit, he insisted it was the appeal of free time in Europe that led to his resignation. And Diller angrily denies that any tension between them led to Barton's departure, saying: "We didn't push him out. Nothing close to it."

Barton leaves behind longtime lieutenant Erik C. Blachford as CEO. The genial, 36-year-old Canadian joined Expedia in 1995 and now serves as the company's president of Expedia North America. He says he will follow the strategy Barton mapped out, and the market seems undaunted. After dipping below \$56 on Feb. 4, Expedia's shares are trading at about \$63 thanks to better-than-expected earnings: The company reported 2002 net income of \$66 million on revenue of \$591 million. Analysts project a 79% jump in earnings for 2003, to \$113 million.

Yet Blachford takes over at a time of nerve-jangling uncertainty. Looming war in the Middle East could knock whatever stuffing is left out of the beleaguered travel industry. And online copy-

WHY EXPEDIA SCARES THE TRAVEL INDUSTRY



ONLINE TRAVEL

In the \$28 billion market for online leisure and small-biz travel, Expedia is 55% ahead of No. 2 Travelocity. Airline-backed

No. 3 Orbitz lags behind. Expedia is expanding in Europe ahead of U.S. rivals.



CORPORATE TRAVEL

Expedia went after the \$70 billion market on Nov. 19, undercutting AmEx and others by up to 75%. Demand is shrinking,

but online potential is mostly untapped. Rivals are cutting jobs to compete.



HOTELS

Expedia pays wholesale price for 80% of the rooms it handles. It marks them at an average of 20% rather than taking

the usual 10% commission on reservations. That pinches hotelier's profits.

ats are nipping at Expedia's heels. What's more, as Blachford plows into the corporate market, he'll face richer and brawnier rivals than the mom-and-pop travel agencies Barton whipped in the consumer realm. "I think they're in for a rude awakening," says Pamela M. Irway, American Express Co.'s executive vice-president for business travel.

And it's not clear what role Chairman Diller will play. Already, he has banked Expedia employees by forcing them to accept restricted stock and fewer stock options, which are potentially more lucrative. Will Blachford be able to stand up to Diller? To date, he has played the diplomat, smoothing over flaps with airlines and hotel chains while Barton pushed for industry domination. Blachford insists that "day to day, I call the shots," though he'll consult with USAI and collaborate with sister companies.

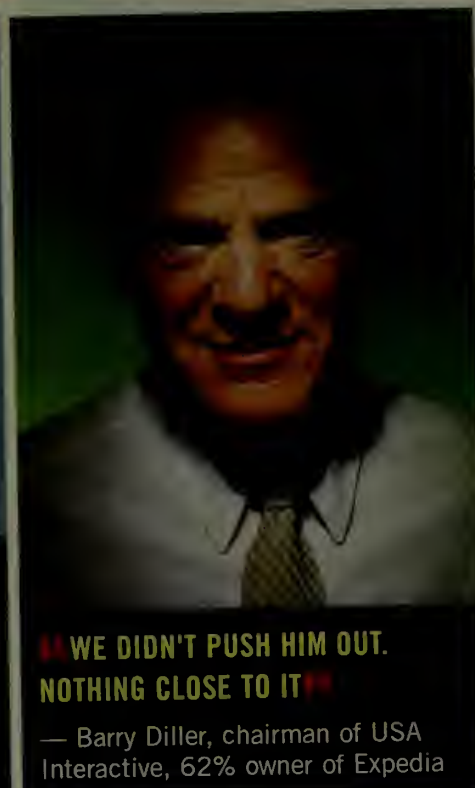
Fortunately for Blachford, he's taking over just as Expedia is hitting its stride. The company has been thriving even in the midst of a wake-me-when-it's-over travel slump. Gross sales grew some 75% last year, to \$5 billion. Expedia zoomed past Sabre Holdings' Travelocity.com to become No.1 in Web travel. And it's expanding rapidly into Europe, which now accounts for 10% of its business. "Expedia is going to be the biggest travel-distribution brand on the planet," predicts Philip C. Wolf, president of leading travel consulting firm PhoCusWright Inc. in Sherman, Conn.

**NEW CEO
RIK
BLACHFORD**



THE WORLD FOR ME IS NOT NECESSARILY CREATING THIS BUSINESS

— Richard Barton, former CEO of Expedia, who resigned on Feb. 5



WE DIDN'T PUSH HIM OUT. NOTHING CLOSE TO IT

— Barry Diller, chairman of USA Interactive, 62% owner of Expedia

Indeed, the six-year-old company is scaring the daylights out of the rest of the \$550 billion travel industry. It is viewed as a fearsome mini-Microsoft Corp. Like Microsoft, where it was created and which spun it off three years ago, Expedia is throwing its weight around, demanding better terms from airlines and hoteliers. "Expedia, which is another word for Microsoft, wants domination," says Samuel L. Katz, CEO of the travel-distribution unit of Cendant, parent of Ramada Franchise Systems, an Expedia partner. "This is not a culture that divides the world up. It asks: 'How do we kill everyone else?'"

While Blachford projects a softer image than Barton, he insists Expedia will stay aggressive. The next target? Corporate travel, worth \$70 billion a year in the U.S.—and the stomping ground of American Express. Expedia entered the business in November, capitalizing on easy-to-use, low-cost technology to undercut traditional corporate travel-services fees by over 75%. Analysts believe Expedia could be a

solid No.2 in the corporate realm in as little as five years.

Such bullish predictions for Web merchants were common in the go-go '90s. The idea was that old-line industries would be "Amazoned"—elbowed aside by Net companies. While it hasn't happened in most industries, online forces, led by Expedia, are wreaking havoc in travel. The U.S. online consumer travel market jumped 37%, to \$28 billion, last year, or 15% of the total market, and is on the way to double its share by 2005, according to PhoCusWright.

Early on, Expedia faced formidable foes. Travelocity Inc. and Preview Travel Inc. both launched earlier in 1996 and held the early lead. And while all three services grew fast, it looked at first as if the airlines would be able to hold them in check. In 1997, carriers sliced base commissions to online agencies from 10% to 8%—and later cut them to 5% and then zero. Then they launched their own competing Web site, Orbitz.com.

It wasn't until Barton broadened Ex-



HOTEL CHAINS

Franchisers such as Best Western fear they'll have to cut fees they get from owners as Expedia supplies more customers.

may channel marketing dollars from franchisers toward Expedia.



AIRLINES

Expedia is pushing a weakened industry to sell it seats at steep discounts, to be marked up and included in vacation packages. Even low-

cost, healthy JetBlue is in talks to bundle its tickets with Expedia's packages.



GLOBAL DISTRIBUTION

Sabre, Galileo, and Worldspan charge airlines \$11 to \$14 per round trip to process transactions. Someday,

Expedia may connect directly to airlines, elbowing out these intermediaries.

BREAKTHROUGH PROGRAM FOR SENIOR EXECUTIVES



Program dates:
May 4, 2003
September 7, 2003
November 16, 2003

The climb gets harder close to the top. Are you ready? Have you identified the breakthrough you will need to get there? IMD can help you do it. We'll challenge you, provoke you, force you to take a fresh look at how to leverage your talent and experience.

- Benchmark yourself with other top executives in one of the world's most global programs
- Work with a Faculty dedicated to personalized strategic leadership and
- Learn through IMD's interactive Real World, Real Learning focus

We'll help you draw up a personal agenda and action plan. **Breakthrough Program for Senior Executives** will ensure that this critical phase of your career is also the most fulfilling.

Sign up now for the session starting May 4, 2003. Visit our website today for a full course description: www.imd.ch/bpse

For more information about all IMD degree and Executive Education programs visit us at www.imd.ch

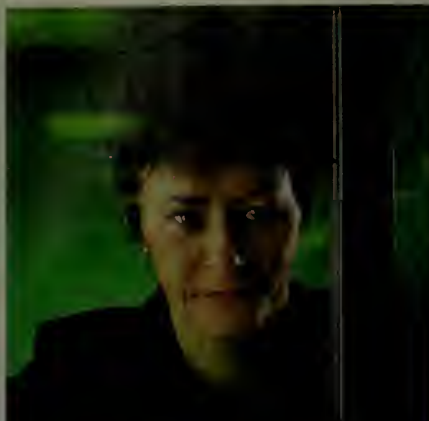


Real World. Real Learning®

IMD is ranked No.1 in Europe in Executive Education overall, and No. 2 worldwide in Custom Programs
Financial Times Global Survey 2002

IMD - International Institute for
Management Development
Chemin de Bellerive 23, PO Box 915
CH-1001 Lausanne, Switzerland
Tel: +41 21 618 03 42 Fax: +41 21 618 07 15
E-mail: info@imd.ch

Information Technology



I THINK THEY'RE IN FOR A RUDE AWAKENING

— Pamela Arway, executive vice-president for corporate travel, American Express



EXPEDIA, WHICH IS ANOTHER WORD FOR MICROSOFT, WANTS DOMINATION

— Samuel Katz, CEO, Travel Distribution Div., Cendant (parent of Ramada Franchise Systems)

Expedia's offerings beyond airfares to include hotel rooms that he positioned the company to dominate online travel. Instead of angling for commissions of 10%, he bought hotel rooms at wholesale prices, marked them up an average of 26%, and resold them to consumers at attractive prices—the so-called merchant business.

Getting into hotels helped Expedia trump the airlines. As its audience grew, lured by hotel deals, Expedia was able to command the lowest airfares, which

analysts had expected to go exclusively to Orbitz. And Expedia has been racing ahead ever since. Travelocity waited until last year before trying to match Expedia's hotel strategy, and Orbitz, late to the market, has been playing catch-up. "We haven't been very effective at neutralizing our biggest competitor," concedes Orbitz CEO Jeffrey G. Katz.

Expedia's big leap came just when it looked as if it was heading for deep trouble—after September 11. Sales had fallen by 65% just after the attacks

ON THE RUNWAY...

Wall Street sent Expedia shares up \$4.31 the day after CEO Barton quit. Still, successor Blachford faces a host of challenges:

	THE PROBLEM	EXPEDIA'S ANSWER
NEW CEO	Barton was Expedia's top salesman and visionary-in-chief. Can Expedia fly without him?	Blachford ran 80% of Expedia and has been there since 1995. And Barton will be on the board of parent USA Interactive.
TRAVEL SLUMP	Airlines are losing billions, and hotels call this market the worst since the Depression. War could make things worse.	Hard times push traffic to the Internet for cheap deals. Expedia predicts 40% growth and a doubling of profits in 2003.
SURLY SUPPLIERS	Hoteliers and airlines complain that Expedia is using its clout to demand discounts that sap their profits.	Smile, cajole—but keep up the pressure for discounts. Suppliers have little leverage in a weak economy.
CORPORATE COMPETITION	Expedia is attacking the \$70 billion corporate travel market, where giant American Express stands in the way.	Focus on simple corporate transactions, which make up nearly 85% of the business. Customers who need coddling will stick with AmEx.
DEAL WITH DILLER	Barry Diller's USA Interactive owns 62% of Expedia, and he's asserting more control.	As long as Expedia performs well and keeps its stock price high, Diller won't take over.

et rather than slice spending, as everybody else did, Barton boosted marketing by 56% and tech research and development by 35% for 2002. Now, just a year later, Expedia is doing 55% more business than Travelocity, and Expedia's share of the online travel market has risen to 19%, up from 12% two years ago.

Expedia's earnings are richer than those of its rivals, too: Operating profit margins are forecast to hit 26% this year. The company's main online competitors, Orbitz and Travelocity, don't break out financials, but Priceline.com, a much smaller rival, reported a 1% operating profit margin last quarter. Expedia's fat profits allow it to undercut online rivals, outspend them for product development, and drive hard bargains with struggling suppliers.

Expedia aims to gain a similar edge in corporate travel. The initial goal: to win market share by using technology to lower transaction costs and make travel

planning and expense accounting easier.

The first service, aimed at smaller businesses, charges \$5 per Web reservation plus a \$100-per-year membership fee.

A second service, expected to be launched by midyear, targets midsize-to-larger corporations with an array of online and telephone-agent services that are expected to include most of what companies can get from the large agencies. Pricing hasn't been set yet.

This is leading AmEx to take a page from Barton's book. Its new strategy is to offer a range of products at different levels of service. At the bottom, it now books 20% of its corporate travel electronically, and its most basic online service is now even cheaper than Expedia's, at a flat \$149 per year. At the high end, AmEx provides clients with meeting-planning and international travel pieces that Expedia won't match with its upcoming service. Jim Lee, corporate travel manager for Honeywell Inc., says he'll stick with AmEx for its handholding. "I'm looking for the lifeline that says, 'I've always got somebody I can call,'" he says.

Still, analysts expect Expedia's corporate business to become as big as its consumer business is now. It won't offer the soup-to-nuts service American Express does, but basic point-to-point travel arrangements—at which it excels—

account for up to 85% of major corporate accounts. Even Danny B. Hood, president of WorldTravel BTI, a top corporate agency and rival, believes Expedia will gain market share at a gallop—initially at the expense of small regional corporate travel agents. "They'll be one of the big players. No doubt about it," he says.

If Blachford can establish traction in the corporate business, he could gain the upper hand over the airlines when it comes to pricing. Bolstered by a large number of corporate accounts, Expedia would be able to steer more and more business to preferred airlines and hotel chains. With that clout, Blachford hopes to be able to force the airlines to sell more seats at wholesale. One early sign that the plan might work: JetBlue Airways Corp., which isn't hurting and usually avoids agents, is talking to Expedia about selling corporate tickets. "We need to make sure we gain access" to Expedia's customers, says Tim Claydon, JetBlue's vice-president for sales.

Expedia's suppliers are trying belatedly to blunt its power.

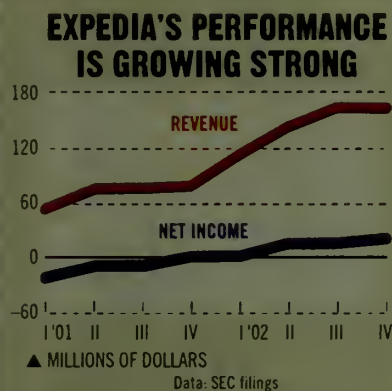
This spring, a group of major hotel chains will relaunch Travelweb.com. But analysts say the site will have to build a huge audience before it has any clout. What's more, sites controlled by suppliers, such as

Orbitz, have trouble promoting one brand over another. This dulls their marketing. "Suppliers had better get their act together or they're going to be slaves. They'll need Expedia like an addict needs a fix," says Henry Hartevelde, an analyst at Forrester Research Inc.

For now, the economy seems to be cooperating with Expedia. Trade groups say demand for trips and hotel rooms won't pick up much until 2004 at the earliest. Meanwhile, hotel construction continues apace. That means loads of discounted rooms—and plenty of leverage for Expedia. If it keeps growing fast over the next year, analysts say, its customer base could give it lasting clout.

Expedia isn't likely to become the Microsoft of travel. Not quite. Yet even with its top brass in turmoil, Expedia is in the pilot's seat—and no one else in the travel business will be comfortable for a long time to come.

By Timothy J. Mullaney in New York, with Jay Greene in Seattle



Triumph or tragedy?



Backfire tells the inside story of Carly Fiorina's controversial tenure at Hewlett-Packard, her successful mega-merger with Compaq, and the disastrous proxy fight that preceded it.

"*Backfire* presents a detailed picture of how a leader can rob a company of its soul and cause it to stray from the principles that had made it enduringly great. Read it and weep."

—Jerry I. Porras, coauthor of *Built to Last*

WILEY

Now you know.

wiley.com



SOFTWARE

EUROPE MIGHT NOT LET BILL OFF SO LIGHTLY

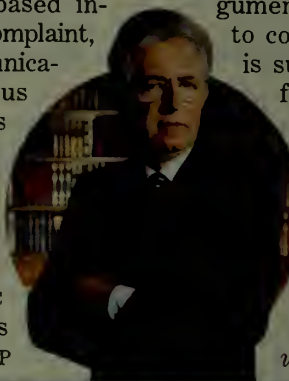
A new antitrust complaint could double the trouble for Microsoft

For Microsoft Corp., the finish line appeared to be within sight. The five-year-old antitrust battles in Washington came to an end last year with a ruling that barely rapped the software giant on the knuckles. And in the sprawling Eurocracy in Brussels, word had it that Europe's competition commissioner, Mario Monti, was just weeks away from resolving Europe's three-year-old antitrust tussle with Microsoft. But any illusions of a speedy wrap-up ended in late January with a resounding thump. That was the sound of a new complaint against Microsoft landing on Monti's desk.

More? Yes, and for a powerful reason. A grouping of Microsoft's rivals, including Sun Microsystems, AOL Time Warner, Nokia, and Oracle, are angling with this new complaint to push Monti toward a much sterner ruling. They argue that Microsoft, now more than ever, is using its Windows monopoly to establish dominance in other markets, from instant messaging to digital moviemaking software. And to resolve this, they want Monti to

force Microsoft to tear out the applications, stripping Windows down to the bare essentials. "These [other] markets are under threat," says Ed Black, president of the Washington-based industry group leveling the complaint, the Computer and Communications Industry Assn. "For us to wait for all these markets to be destroyed is absolutely ridiculous."

For Microsoft, the prospect of tearing apart Windows is anathema. Much of the company's PC strategy, and the very basis of its popular Windows XP



UNSAVORY OUTCOMES FOR MICROSOFT

As he presses his antitrust case against Microsoft, Europe's competition czar Mario Monti holds powerful cards. A negotiated settlement or judgment could include the following:

- An unbundling of the Windows Media player and other applications from Windows. This is Microsoft's worst nightmare, and the company will pull out all stops to prevent it.
- A fine of up to \$2.8 billion, equal to 10% of Microsoft's worldwide revenues. Monti may threaten fines to win technical concessions.
- An order for Microsoft to reveal the technical innards of Windows, so that rival programs work better with it. Microsoft might grudgingly make this concession to avoid unbundling and a fine.

GATES: A dismantled Windows would hurt him most

operating system, is to provide users with a host of seamless applications. And when U.S. District Judge Colleen Kollar-Kotelly upheld the company's settlement with the U.S. Justice Dept., an exultant Chairman William H. Gates III said that the deal permitted Microsoft to add new features to Windows. "It gives us the freedom to innovate, which we've said is a very central thing."

It's precisely that freedom that competitors want to limit. And Monti's division, with its ongoing case against Microsoft, is the logical venue. With his vast powers that extend across the entire European market, Monti has the clout to humble even a giant. For three years the commissioner and his staff have been developing an antitrust case against Microsoft based largely on the bundling of Microsoft's Media Player into the Windows 98 operating system. The new complaint, focused on Windows XP, is technically unrelated to the ongoing case. But the plaintiffs, say Brussels insiders, are hoping it will tip the balance against the company. "It could provide a new stick with which the commission can beat Microsoft," says Jacques Bourgeois, an antitrust lawyer at the Brussels office of Akin Gump.

Microsoft, says a spokesman, views the new charges as "tired and old arguments." But if they lead Monti to consider unbundling, Microsoft is sure to battle with Darwinian fury. By comparison, Monti's other remedies look mild.

One alternative would be to force Microsoft to release more technical information to rivals about Windows. **MONTI:** He's in uncharted waters giving them a better chance to design competitive programs.

Monti could also fine the company as much as 10% of annual revenue, or \$2.8 billion.

Wherever he takes the case, Monti is treading new ground. Relevant case law in Europe is scarce. But one precedent is clear: In Europe's Microsoft case, the complaints keep coming.

By Jay Greene in Seattle, Andy Reinhardt in Paris, and Mike France in New York

DON'T MAKE ME TELL YOU AGAIN —
ONLINE MEETINGS FROM WEBEX.
They're efficient, effortless, and germ-free!



ERNESTINE TOMLIN
Global Communications Visionary

Online meetings from WebEx let you cut travel costs, boost sales and massively increase productivity across the enterprise. Join hundreds of Fortune 1000 companies who use WebEx to get an edge on the competition. **Demo online meetings from WebEx at webex.com/ringydingy**

webex
THE NEW RINGY DINGY™



Security Solutions

Biometric identification empowers advanced control.

NEC is a world leader in proven biometric identification systems that are incredibly accurate, sophisticated and extremely reliable. Whether at a public institution or at an enterprise, we can provide fast and accurate identity verification while safeguarding personal privacy. Stemming from our world-class research and technology expertise, it's the kind of innovative solution you'd expect from NEC. From networking, systems integration and custom semiconductor solutions, we empower people through innovative technology. Call 1.800.338.9549 or visit www.necus.com.

Empowered by Innovation

NEC

BATTLE ROYAL AGAINST LEGAL PAYCHECKS

Unions are waging dozens of proxy fights over executive pay

Investor fury over exorbitant executive paychecks has boiled over in the past year with each new revelation about CEOs raking it in while their shareholders take it on the chin. Now, a battle royal is about to begin. As Corporate America's annual-meeting season gets under way in March, stockholders will vote on some 200 proxy resolutions aimed at curbing CEO pay.

Sponsored largely by union pension funds, which control or influence \$1.5 billion worth of stock, the resolutions range from expensing executive stock options or indexing them to performance benchmarks to curtailing lucrative pension extras and golden parachutes (table). Such demands are likely to provoke heated encounters at General Electric, Wal-Mart, Yahoo!, and dozens of other major companies. "Anger levels [among stockholders] are way off the charts," warns Patrick McGurn, a vice-president at Institutional Shareholder Services Inc., which advises pension and mutual funds how to vote their proxies.

Already, some companies are reeling in the hopes of heading off a showdown. More than a dozen, including American Express Co. and Coca-Cola Co., are in talks with labor pension funds about compensation curbs of one sort or another. A few companies have already made some concessions: After talks with major shareholders and the AFL-CIO, AmEx recently agreed to receive options grants to senior managers and substitute restricted stock for options given to middle managers. But many companies are resisting

labor's demands. GE is telling shareholders to vote against a sheet metal workers union resolution to index executive options because "stock options, which generally don't vest for three to five years, are inherently linked to performance," says spokesman Gary Sheffer.

Plenty of companies face a stiff fight, particularly from those insisting that they deduct the value of stock options from their bottom lines. Since last summer, more than 170 companies have said they will start treating options as an expense. This ups the pressure on the 89 companies with which labor has filed proxy resolutions pushing the idea, such as Caterpillar Inc. and Eastman Kodak Co. Labor also hopes to build momentum for the Financial Accounting Standards Board to make expensing of options mandatory. Already, FASB's initial moves in that direction have provoked angry corporate counterattacks.

Either way, expensing options isn't nearly enough to satisfy aggrieved shareholders. Just look at what's going on at Coke. The beverage giant won kudos last July when it became one of the first companies to adopt expensing. But pension funds saw that as the beginning of the battle, not the end. The Teamsters union, a Coca-Cola stockholder, has submitted a resolution to require the exercise price of senior executives' options to be linked to a peer-



group stock-performance index. The AFL-CIO has chimed in with a proposal calling on Coke to get shareholder approval for special pension benefits for top execs. So far, Coke is opposing both resolutions, says spokeswoman Kari Bjorhus, but performance-based options "are being considered." However, in January, Coke ended a supplemental pension plan that gives key executives 10 years of unearned service credit. "If you can realign executive pay," says William Patterson, head of the AFL-CIO's Office of Investments, "it's the predicate to corporate governance reforms."

With average CEO pay more than 400 times what the average hourly worker takes home—up from 42 times in 1980—labor has a long way to go. Still, with every disappointing 401(k) statement, labor's pickaxe gets a little more muscle behind it.

By Amy Borrus in Washington, with Dean Foust in Atlanta

CEO PAY UNDER FIRE

Union and public pension funds are poised to mount a full-scale attack on excessive executive compensation in the upcoming proxy season:

EXPENSE STOCK OPTIONS

Labor has filed 89 shareholder resolutions that would require companies to subtract option costs from earnings.

INDEX OPTIONS

An additional 75 resolutions call for basing future executive options grants on a company's share-price performance.

BAN OPTIONS

Seven resolutions would ban options for senior execs at companies such as American Express and AOL Time Warner.

QUESTION GOLDEN PARACHUTES

Several resolutions would require companies to get shareholder O.K. for executive severance or retirement deals.

SCRUTINIZE THE BOARD

The AFL-CIO plans to oppose the reelection of directors on compensation committees that gave huge payouts to underperforming CEOs.

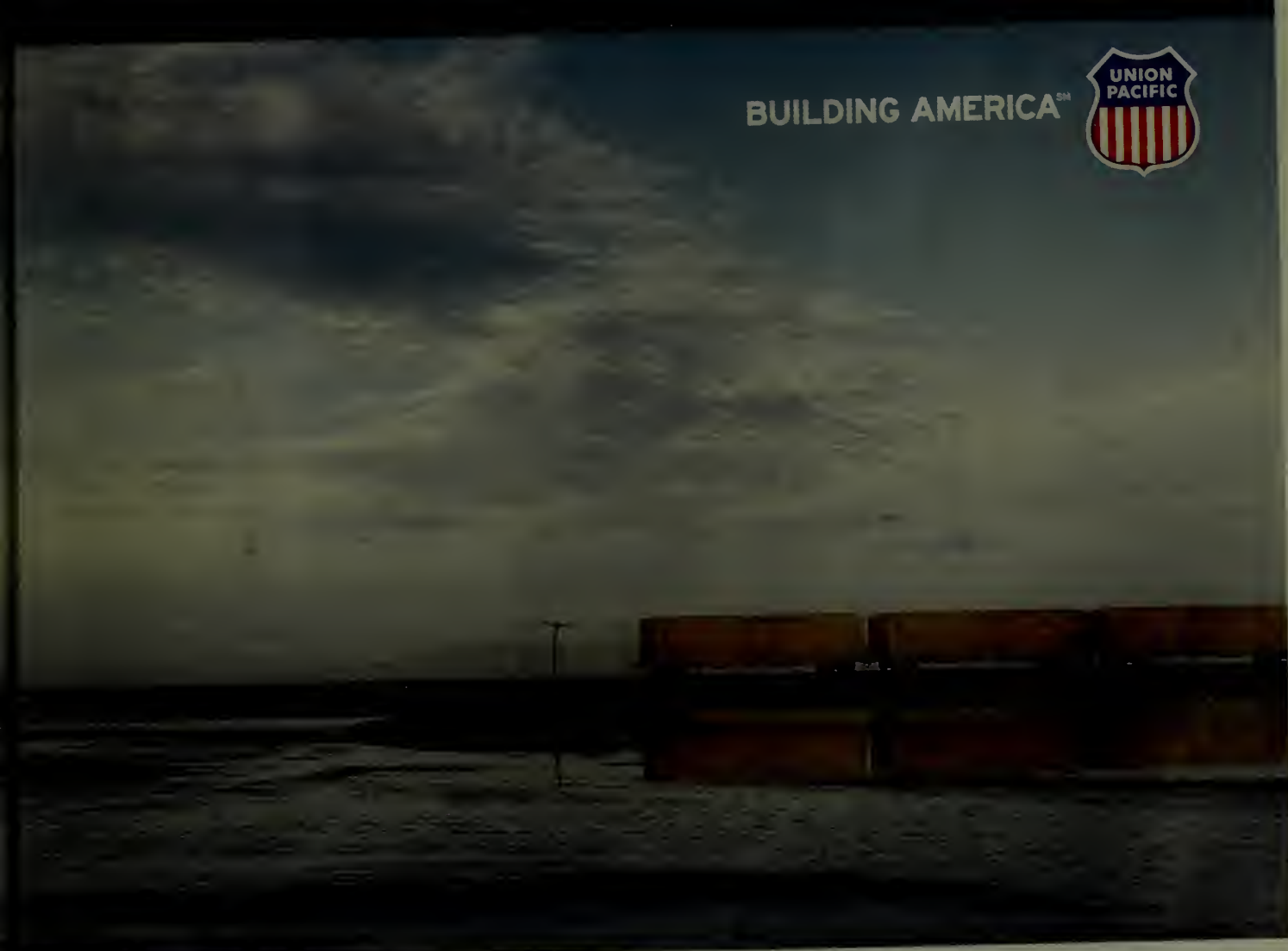
THINKING OUT

Innovation and ingenuity have been at the core of Union Pacific since Abraham Lincoln directed the company to connect the nation, east to west. Today is no different. That's why our GPS-equipped refrigerated boxcars ne

THE BOXCAR.

Not only tell our shippers the exact location of their produce, but also alert us of even a two-degree variance in the temperature of the cargo. Just another way we are expanding our services for our customers by expanding our thinking.

BUILDING AMERICASM



MELTDOWN OF A HIGHFLIER

How blue-chip law firm Brobeck crashed and burned in the tech wreck

Shortly after 2 p.m. on Jan. 30, staffers in the New York office of the law firm Brobeck, Phleger & Harrison LLP received an e-mail telling them to "please plan on attending" a firm-wide videoconference in about an hour and a half. Most believed they were being summoned to celebrate a merger with Morgan, Lewis & Bockius LLP—a combination that would have created one of the five largest firms in the U.S. Instead, they were told that talks had broken down and that Brobeck would be folding. Later that day, taps rang out over the office intercom in New York, while lawyers in other outposts sat shell-shocked. "Some people cried, others were pounding the [conference room] table," recalls one Brobeck lawyer.

It was a tragic ending for what had been until quite recently one of the most successful law firms in the country. Founded in 1926, Brobeck had spent decades building a well-balanced practice catering to a diverse group of blue-chip clients, including Wells Fargo Bank, Baxter International, Owens Corning, Gap, McKesson, and Cisco Systems.

But when the technology boom hit, the San Francisco-based firm chucked the tried-and-true conservatism and made an aggressive bid to become a national powerhouse. Borrowing heavily, partners leased a glitzy Silicon Valley headquarters and opened offices in Washington, Dallas, and Reston, Va. Ignoring industry convention, they launched a \$3 million national TV advertising campaign, one of the first ever aired by a blue-chip law firm. New attorneys were brought in by the hundreds, while unsexy nontechnology clients increasingly received the cold shoulder.

For a while, the strategy paid big dividends. Partner

profits rose to \$1.17 million apiece in 2000—making Brobeck the most profitable firm on the West Coast. But when the tech party suddenly stopped, the firm stayed on its growth course—refusing to lay off attorneys or dump excess real estate. As a result, 1,100 people were put out of work and Brobeck will likely go down in history as the worst legal meltdown since the notorious demise of Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey in 1988. "They made the classic mistake of assuming [the high-tech bubble] would go on forever," observes Mary Cranston, chair of Pillsbury Winthrop LLP, a San Francisco-based rival.

For many angry Brobeck veterans, the villain of this story is their onetime hero, charismatic securities litigator Tower Snow Jr., who joined the firm in 1995. He came armed with an impressive roster of clients, including Apple Computer, 3Com, and Bank of America, and a magnetism that charmed Brobeck's troops instantly. Perhaps more important, Snow brought a vision for how to transform Brobeck from a successful regional player into a national

brand name: by abandoning the prudence that had long typified the law business and riding the technology wave with the ferocity of an Internet startup. Snow declined to talk to *BusinessWeek*.

Within three years of his arrival, Snow was elected chairman of Brobeck's seven-person policy committee. In addition to pushing for new offices and the TV advertising campaign, he led an expensive hiring blitz that resulted in Brobeck's legal team more than doubling, from about 450 attorneys in 1998 to more than 900 at its zenith in 2000.

As the technology boom gathered strength, Snow's bet look brilliant. Brobeck raked in millions of dollars in fees working for tech titans such as Intel and Sun Microsystems, as well as relative newcomers like Broadcom Corp. and E*Trade Group Inc. But the expansion had come at a price: Brobeck's array of nontech clients began to feel like unwanted stepchildren. Schuler Homes, for example, a Honolulu-based homebuilder, finally got

so fed up that, in late 1999, it took its business to a competitor. "I started to see that we were not getting the attention we had gotten," says Pam Jones, the former chief financial officer of Schuler, which last year sold for \$1.2 billion.

Such client defections were easily offset by other work. And Brobeck was still planning for a bright future. The mood inside the firm was so jubilant that in October, 2000, well after NASDAQ had begun its plunge, some 150 partners headed to the Ritz-Carlton Hotel in Cancun to celebrate their entry into the big leagues. "It was party time," recalls one partner.



BROBECK OFFICES IN SILICON VALLEY

BAD BET

Brobeck rode the tech wave—then hit bottom

PROFITS PER PARTNER

1996	\$510,000
1997	560,000
1998	590,000
1999	885,000
2000	1,170,000
2001	660,000
2002	555,000
2003	DISBANDED

Data: American Lawyer, BusinessWeek



POWER PLAY Tower Snow, Brobeck's onetime chairman (in a 1999 photo), led the firm's aggressive push to become a national brand name

because of the terrorist attacks, a group of partners rented vans and caravanned back to the Bay Area. By the time the partners got home, according to three lawyers, they had decided to remove Snow from his chairmanship.

With the firm's profits rapidly sinking, Snow resigned from the chairmanship in mid-November. He left the firm entirely in May, 2002, joining London-based Clifford Chance LLP, along with 16 other Brobeck partners. Tensions had climbed to such a level between Snow and others at the firm that an angry insider broke a key in Snow's office door, apparently out of spite, since Snow was already barred from entering the San Francisco office.

Those remaining began dealing with Brobeck's mounting troubles, including debt that had climbed to \$82 million, according to Gilhuly. At an off-site meeting at a hotel in San Mateo, Calif. in October, partners divvied up three tasks: restructuring the debt, renegotiating leases, and finding a merger partner.

Their efforts seemed to be paying off. Partners spent some \$26 million from their own pockets to pay down the debt. Much of the excess real estate was either subleased or a penalty was paid to get out of the obligations. And Morgan Lewis was taking a serious look at Brobeck. In late November, a group of corporate partners, believing they were back on track, headed to the MGM Grand Hotel in Las Vegas. "We were relatively upbeat," says an attendee.

The good mood didn't last long. On the eve of the deal, Steven M. Zager, a Brobeck partner based in Austin who was a rainmaker, bolted for a rival firm. The high-profile loss, among other things, spooked Morgan Lewis, which abruptly called off its plans for a deal. Within hours, Brobeck's leadership met and decided to disband.

The blame game is already well under way, with Snow taking the brunt. But the firm's moves were not his alone. "This was not a matter of Snow leading the cattle to slaughter," says a former partner. "People were not walking the halls blindfolded." To the contrary, they saw the path to the future clearly—and liked the way it looked.

By Linda Himelstein in San Mateo, Calif., with Heather Timmons in New York

Shortly after that getaway, Snow circulated among Brobeck's partners a memo asking to increase the firm's credibility with Citigroup. He argued that Brobeck needed the money to hire new lawyers and further expand in high-tech hubs, such as San Diego, Austin, Tex., and Silicon Valley.

The loan would be secured in part by the firm's receivables, meaning that if Brobeck defaulted, the bank could seize the firm's cash, explains Peter M. Gilhuly, partner at Latham & Watkins LLP who represents Brobeck. In addition, the loan had provisions allowing Citibank to go after individual partners to recover money. Gilhuly says that "numerous law firms have recourse credit agreements." But some lawyers say the terms left Brobeck and its partners vulnerable. Citigroup declined to comment. Brobeck referred all questions to Gilhuly, who declined comment beyond the credit arrangements.

Despite the risks, Brobeck's partners overwhelmingly approved the loan increase and expansion plans. Former

partners say Snow had plenty of support for his agenda and, at times, had to restrain other colleagues who argued for an even more aggressive approach.

Snow, like some other partners inside Brobeck, believed the economic downturn was temporary and that Brobeck would cash in when business picked up. In contrast, other tech-heavy law firms were shedding lawyers and real estate. Menlo Park (Calif.)-based Venture Law Group, for example, began cutting lawyers and subleasing its extra space in 2000. Still, Snow vowed that Brobeck would resist layoffs. Instead, he slashed other operating expenses such as overtime and travel, says a former partner on the policy committee. "You wanted to keep your resources available so if there was an upturn, you could do the work," says this ex-partner.

For other partners, though, that cost-cutting effort wasn't enough, and they began to question Brobeck's direction. When a management meeting in Denver was cut short on September 11, 2001,

Ranked #1 by *SmartMoney Magazine* for the Do-It-Yourself Investor



"You can't plan for tomorrow if you don't know where your money is today."

25 Free Trades

Open an account online at
tdwaterhouse.com/25free
and enter offer code: **MPFBWW**
to get your 25 free trades.

CONTACT US AT:

1.800.tdwaterhouse
tdwaterhouse.com
or stop by one of our
150 branch locations

Online trades as low as

\$9.95

TD Waterhouse customers stay close to their money because they do their own homework and check out all the research themselves. So they always know where their investments are and how they're doing. Which makes it a lot easier for them to plan for the future. No wonder TD Waterhouse has been ranked #1 for Do-It-Yourself Investors by *SmartMoney Magazine*.*

TD Waterhouse has everything you need to stay in control of your money, all in one place. With free online tools like the Retirement Planner to help you set and meet your financial goals. Streaming real-time quotes.[†] News and independent research from respected names like Standard & Poor's, CBS MarketWatch, Argus, Vickers, Reuters

and First Call. Which explains why TD Waterhouse has earned Kiplinger's** highest, 5-star rating for the amount and quality of their online research.

Once you open an investment account, you'll get service you can depend on. And you can always get answers online or by phone. You can even stop in and talk to an Investment Consultant at any of our more than 150 branch locations across the country.

So why not get a little closer to your money today? Open a TD Waterhouse account and take control of your money — and your future.



Waterhouse

You're in Control.

©2003 TD Waterhouse Investor Services, Inc. Member NYSE/SIPC. Access to services and your account may be affected by market conditions, system performance or for other reasons. Online market orders are \$9.95–\$17.95 depending on trading activity. Limit orders just \$3 more. Each free trade valued up to \$45. Trades over 2,500 shares incur a 1 cent per share charge for the entire order. Call or see tdwaterhouse.com for complete commission fee schedule. Offer valid for new customers who open individual, joint, retirement accounts with a \$1,000 minimum; custodial, partnership and corporate accounts are not eligible. Funds transferred from existing TD Waterhouse accounts are not eligible. One offer per person; U.S. residents only; void where prohibited; free trades are valid for 30 days from account opening; standard terms and conditions apply; offer subject to change at any time without notice. Third party research obtained from sources deemed reliable; however, TD Waterhouse does not guarantee its accuracy or completeness and makes no warranties with respect to results to be obtained from its use. [†] Streaming real-time quotes available depending on trading activity. ^{*} *SmartMoney Magazine*, August 2002. Four out of the last six years. SmartMoney is a registered trademark. SmartMoney is a joint publishing venture of Dow Jones & Co., Inc. and Hearst Communications Inc. ^{**} Source: Kiplinger's Stocks 2003, Winter 2002.

CODE: MPFBWW

TDW3247

BusinessWeek

Investor

FEBRUARY 24, 2003

MAKING LIFE RICHER

Taking Off

Great Destinations
For Spring and
Summer Travel

Page 138

Reef diving and
ecotourism in
the Blue Hole of
Belize

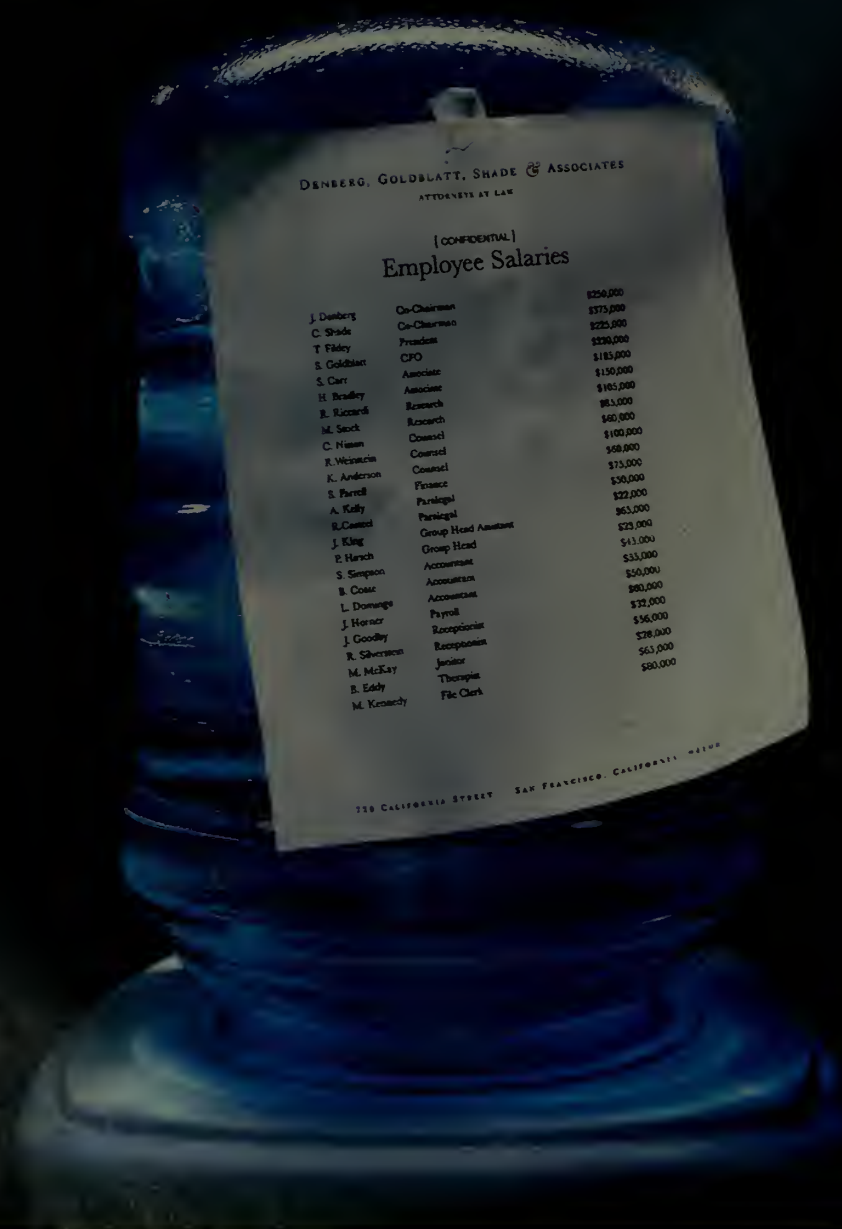
ICELAND 136 Like No Place You've Seen
U.S. 140 The Azalea Trail
ARGENTINA 141 Bargains in Buenos Aires



Keep privileged information from the unprivileged.

{Document Security}

Keep control of your documents even after they leave your desktop. You say who can view them, who can alter them, even who can print them. Adobe Acrobat. Create an Adobe PDF and do more with your documents.



Adobe Acrobat 5.0

Tools for the New Work

EDITED BY
TODD GUTNER

BusinessWeek / February 24, 2003 135

Fire and Ice

From volcanoes to glaciers to geysers to boiling mud, Iceland is for nature lovers. Plus, the sizzling night spots of Reykjavík. BY SHERIDAN PRASSO

LUSH LIFE:

A sod-roofed museum on the coast

IN THIS TIME OF adventure travel and discovery shows on TV, it takes a lot for a country to be spectacularly impressive. So think up the most enigmatic and bizarre landscape imaginable. Give it a topography of hardened lava, lush sheep-grazed hilltops, thrusting mountain peaks, and a jagged coastline. Then make it bubble with boiling mud, freeze over with advancing glaciers, explode with geysers, and roar with waterfalls. Throw in gnomes, elves, fairies, and dwarves—as described in local lore—and what you have is Iceland.

Many Americans don't realize Iceland is so close—only five hours from the East Coast. Direct flights on Icelandair leave daily from Boston, New York, and Minneapolis during high season, from early June to mid-September, and cost just \$300 to \$600 round-trip. After the summer ends, Iceland gets to be just like its name—icy and snowed-over. Much of the eastern part of the island becomes inaccessible from Reykjavík—the capital—and many hotels, restaurants, and tour operations close up shop. Not that Iceland really gets frigid: It is warmed by the Gulf Stream, and winter temperatures are comparable to those in New England. The big difference: Daylight in the dead of winter lasts only from noon to 2 p.m.

In summer, of course, it's the opposite: The sun shines all night. That's when Iceland (population 250,000) explodes with life, from the lush moss and grass that carpet the landscape wherever the snow recedes to the crowds of Icelanders and mainly European tourists who patronize Reykjavík's

clubs and restaurants around the clock. The country is expensive by exotic-locale standards. Expect London prices for hotels and restaurants in Reykjavík, though budget accommodations in small guest houses and B&Bs are available for \$60 to \$90 a night at the Web sites goiceland.org or hotel.is.

Iceland's language, derived from Old Norse, gave us two common terms: *Geyser* comes from Geysir, a spot 35 miles east of Reykjavík that began erupting in the 14th century and still spurts water 60 feet in the air every eight minutes. *Heck* is derived from Mt. Hekla, a still-active volcano that mainland Europeans believed was the entrance to Hell.

Tourists can see both these attractions by taking day-excursion buses from Reykjavík. But renting a car—for \$80 to \$100 a day plus \$4 a gallon for gas—is the best way to get around. A car can take you to spots the tour buses miss, such as Vik, a town at the southernmost tip that is the center of the country's knit-wool industry. Rising from the North Sea, its cliffs teem with Arctic terns, and the surf pounds its black-sand beaches and unusual rock formations. Swivel 180 degrees, and you find yourself a speck between the sea and the towering, 4,440-foot Myrdalsjökull glacier behind you.

You can also drive to the many horse farms along the south coast, which offer the chance to ride Iceland's unique breed of horses. At just 13 hands high, or a little over 4 feet at the shoulder, full-grown horses are not much bigger than a pony. Like only a handful of other breeds in the world (Tennessee Walkers and Mongolian ponies, for example), Icelandic horses have a fifth



gait. Get the horse moving fast enough, and it will stride from a gallop into a "tolt"—a gait at which the ride smooths out to a glide that feels almost like being on ice skates. Icelandic horses are so hardy they prefer to live outdoors all year round—even in

SMOKY:

One of many active volcanos



snow. Because they're small, they need less food than other breeds—and their coats require no brushing. "It's like having a bicycle," says Anders Hansen, who owns the Arbakki Horse Farm, one of Iceland's largest, and reports that more and more Americans are importing these easy-to-care-for horses to the U.S.

Iceland has no lack of unusual wildlife. In the Westman Islands, reached by a short ferry ride from the south coast, spectators in August watch the thousands of recently hatched puffins descend on the fishing village of Heimaey in search of food.

Whale watching is also a big event in summer, as hundreds of minke whales ply the harbors of Reykjavík and other cities. Whale-watching boats leave Reykjavík's docks hourly, and trips cost about \$30. Iceland has announced its intention to resume whaling, outlawed worldwide in 1989, but so far it has not done so. Still, some restaurants (such as the Trir Frakkar Hja Ulfari in downtown Reykjavík) serve whale that was legally caught for "scientific" purposes.

Salmon is also plentiful on restaurant menus, and the sport of catching them draws anglers from all over the world to the famous Laxa River in

the north of the country. It is reputed to be one of the most demanding—and rewarding—salmon-fishing spots in the world.

The most relaxing place in Iceland is the most ethereal: the famous Blue Lagoon. It is an enormous pool of mineral-rich water, the effluent from the geothermic power plant that generates all the electricity for Reykjavík. Icelanders swear by the healing properties of its natural silica and blue-green algae. In some places, the water is scalding, and the steam it generates billows into the cold surroundings. At dusk, the place has an eerie glow.

Large hotels in the capital offer bus service to the site four times a day, for about \$20 per person. After a few days of taking in the sites and scenes of Reykjavík, climbing round lava fields, visiting mud pits, geysers, glaciers, and waterfalls, then horseback riding around the countryside, that hot water will feel like heaven. ■



KIPLING
COUNTRY:
Desert
denizens

Maharaja Treatment

In Rajasthan, a commoner's budget buys plenty of luxury. **BY GARY WEISS**

SOME TIME AROUND 1670, the fifth Rawat of Deogarh, Dwarkadas, made a decision for which future generations of travelers in India's Rajasthan region will forever be grateful: He built the Deogarh Mahal. Three centuries later, you can sleep where Dwarkadas slept, eat the same sumptuous food he ate—and walk away with your fortune intact. The room rate is the far from princely sum of \$56, in rupees, per night.

If you like being treated like a rawat—at prices that can be embarrassingly proletarian—Rajasthan is for you. This desert region southwest of New Delhi has long attracted travelers who want to wallow in luxury by night and by day wander through a land frozen in time: Kiplingesque forts, marble temples, and roadsides where monkeys beg for scraps. And there has never been a better time to visit Rajasthan. A drop-off in tourism, caused by India-Pakistan hostility, has emptied the region's usually crowded hotels and tourist sights.

But tensions have eased, so try to get there before the tourists come flocking back. When you go,



keep in mind that the most fascinating sights and hotels are not usually in tourist itineraries. Your travel agent will send you to Jaipur, a beautiful if touristy city, but probably not to charming smaller towns such as Deogarh or Bikaner. They push luxury hotels like Udaipur's Lake Palace, which are indeed magnificent. But the experience is even more impressive at a converted palace about 20 miles north of Bikaner.

The Gajner Palace is at the edge of a lake and overlooks a wildlife preserve teeming with peacocks and tree-dwelling bats. Built as a residence in the early 1900s by Maharaja Sir Ganga Singhji, this property is lovingly landscaped but has gone to seed at the edges, which only adds to the fallen-grandeur charm of its 6,000 acres. The hotel seems to have changed little since the Raj, and much of the staff served the last maharaja.

Tourists are also scarce in Bikaner, which flourished for centuries as a trading post between the Arabian Sea and central Asia. On the outskirts is a Hindu temple, Karni Mata, that was named for a mystic who lived in the 15th century. It is said that the souls of Karni Mata's devotees live on today—as rats. The rats swarm all over the place, climbing on the feet of the faithful and feasting on sugary sweets.

Another spot neglected by tourists, because of its remote location, is Jaisalmer. This camel-caravan way station, dominated by a 12th cen-



SUGAR AND SPICE:

The Lake Palace and market at Udaipur



ture fort, is in the far reaches of the Thar Desert. About a quarter of the city's population lives within the fort's walls, and the city is known for its sandstone *havelis*, mansions built by the town's wealthier merchants in bygone days. Camel excursions are available on the outskirts. Unfortunately you don't get to actually steer the camel—a kid leads you and camel around. Even so, a camel jaunt is the best way to tour the surrounding sand dunes.

One virtue of a trip to Rajasthan is that you can easily work the Taj Mahal, in nearby Agra, into your plans. Avoid Agra's tourist traps, but bring an extra suitcase to fill up on fabrics, carpets, and sundry trinkets in Rajasthan. Bring an appetite, too. The food in Rajasthan is extraordinary, particularly at its ubiquitous roadhouses. The quality rivals the best restaurants in New Delhi. It is quite a treat for a Yank accustomed to U.S. roadside fare. But then again, in Rajasthan the surprises are so commonplace they aren't really surprises at all.

Belize: An Ecotourist's Eden

Where jungles, diving, and archaeology

BY GERI SMITH

AFTER A RIGOROUS hike through the Belizean jungle, my husband and 13-year-old son strapped themselves into safety belts and were hooked up to ropes by wilderness guides. Then they stepped backward off a rocky cliff and rappelled 300 feet through the rain forest canopy into a sinkhole. A few miles away, my 15-year-old daughter and I donned headlamps and hopped into inner tubes, paddling with a guide deep into a network of caves used by Mayan priests centuries ago.

We climbed up slippery rocks to find crystal-studded caverns and remnants of fires, sacrificial offerings, wall etchings and footprints of people, probably priests, who anthropologists believe ventured into these caves more than 1,000 years ago. A few days later, the adults in our family took another kind of plunge, scuba diving 140 feet into the Blue Hole, a collapsed cavern off the coast of Belize that was submerged in the last Ice Age. Swimming past a series of huge stalactites, each 25 to 50 feet long, we saw huge black-tip and bull sharks cruising silently just 30 feet away in the darkness.

In Belize, we found what we were looking for: thrilling reef diving and jungle ecotourism. We also found a friendly laid-back atmosphere, with small, reasonably priced hotels rather than the high-rise resorts of places like Cancún. The English-speaking former British colony is less than a two-hour flight from Miami. It's a small and poor country, with

just 230,000 inhabitants—a mere fraction of the estimated 2 million Mayans who may have lived in the area at the height of that civilization, from 300 to 900 A.D. But the country has many riches—its magnificent coral reef, the second-longest in the world, and its thousands of Mayan ruins and ceremonial caves.

We started our trip at the Caves Branch Jungle Lodge just outside the sleepy capital, Belmopan. It's in the heart of the country's jungle region, the





Cayo district of Western Belize. We had perused the lodge's web site (cavesbranch.com) and read rave reviews from former visitors. Owner Ian Anderson, 48, a Canadian who visited Belize 11 years ago and decided to make it his home, has created a special spot on the Caves Branch river. Campsites, hermitary-style quarters, and thatched-roof cabanas are set among foliage-packed, meandering paths lit with kerosene torches. During the day, guests are out rappelling, hiking through the jungle, or exploring some of the 63 caves that Anderson and his rescue-trained guides have scoped out over the years. At night, guests swap stories about their adventures. For us, the biggest rush came from diving the Blue Hole. Scientists believe it was formed 11,000 years ago

COLORFUL:

Diving the coral reef off Belize



ADVENTUROUS:

Rappelling near Caves Branch, and the Xunantunich Mayan ruins



at the end of the last Ice Age, when the sea's level rose, flooding the ancient caves and collapsing the roof. What's left is a 415-foot-deep, quarter-mile-wide hole with sheer vertical walls, accessible to experienced

divers only. Divers descend 140 feet to see stalactites that once hung from air-filled caverns. You can remain at that depth only eight minutes, so my husband and I swam with our 12-person group, hand-in-hand—neither of us wanted to become disoriented and sink to the bottom of that hole, something that has been known to happen.

If you prefer less adventure, you can stay at Francis Ford Coppola's beautiful Blancaneaux Lodge in the Pine Ridge district (blancaneaux.com) and drink his California wines at night after exploring the Xunantunich Mayan ruins by day. You can cross into Guatemala to visit Tikal, considered by many to be the most spectacular ruins in Central America.

Bird-watchers can spot 140 species on early-morning walks through the Cayo district. And beach lovers will enjoy San Pedro, the main town on Ambergris Caye, where you can rent golf carts to drive through the town in search of that evening's seafood dinner—or catch your own on a fishing trip. For such a small country, Belize offers a surprising variety of experiences.

AIRPLANE SURVIVAL KIT

Forget that pillow in the overhead bin. Bring Cocoon's \$20 comfortable **arctic goose down** number that stuffs into a bag the size of your fist. 800 254-7258.

Checked bags are now screened. So secure them with **disposable PrivaSeals** (\$4.85 for 12) instead of expensive locks. If the seal is broken, make sure nothing's missing. 800 962-4943, magellans.com



With airline food going the way of the dodo, pack a snack in Thermos' \$8 **Energy Insulated Lunch Sack**. It fits in a carry-on, and has a bungee cord to hold a water bottle. 877 419-8272, thermos.smartermall.com



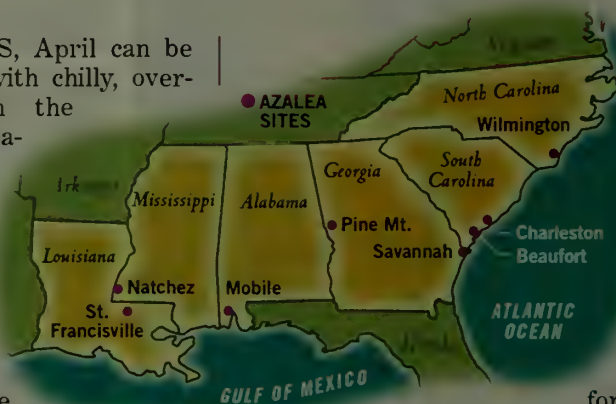
On the Azalea Trail

See blossoms and mansions. **BY CAROL MARIE CROPPER**

FOR NORTHERNERS, April can be the cruelest month, with chilly, overcast days. But on the warmer side of the Mason-Dixon Line, even as early as March, Southerners celebrate what is arguably the most beautiful time of their year: azalea season.

Antebellum towns such as Savannah, Ga., and Natchez, Miss., are awash with pink, fuchsia, and coral blossoms that line the streets, fill formal gardens, and reflect from lakes and ponds. Dixie cities hold festivals to coincide with this riot of color, opening mansions and plantations to tourists, with belles in hoop skirts as guides.

Exactly when the blooms peak varies from year to year and by location. Coastal azaleas, coaxed by warm sea breezes, may open in early March, with inland shrubs peaking later



that month or even in early to mid-April. Southernmost cities see blossom before their more northerly neighbors. Before you go, call ahead to check nature's schedule.

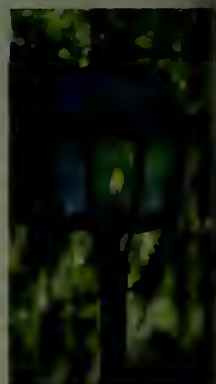
One way to tour azalea country is to drive up the Eastern seaboard, synchronizing your arrival with the local azalea festival or home tour. Savannah, with its lush azaleas and squares filled with 18th and 19th century homes, is a perfect place to start. This old port city, founded in 1733, will hold its 68th Annual Savannah Tour of Homes & Gardens on Mar. 27 to 30.

Just 45 miles up the coast, the tiny town of Beaufort, S.C., is a less-discovered

repository of homes dating to the early 1700s. It's worth a stop, even if you miss the homes and plantations featured on this year's spring tour, scheduled for Mar. 21 and 22.

Beaufort puts you almost halfway from Savannah to another city famous for its antebellum mansions, Charleston, S.C. Many of downtown Charleston's azaleas are tucked away in urban gardens, behind homes and their gates and garden walls. But you can glimpse the flowers, as well as the mansions, during the annual Festival of Houses & Gardens from Mar. 20 to Apr. 19. Also, centuries-old plantations a short drive from town—Magnolia Plantation and Middleton Place—are revered for their large formal gardens, which overflow with azaleas.

OLD TOUCHES:
A gaslight in azalea-rich Savannah



An hour's drive south of Atlanta takes you to the 14,000-acre Callaway gardens and resort in Pine Mountain, Ga., where azaleas line reflecting pools, hiking trails, and a 36-hole golf course. Further south, Bellingrath Gardens & Home is within 25 miles of Mobile, Ala., a city with its own azalea trail.

A more westerly azalea route takes you downriver from Natchez to St. Francisville, La. You could make this trip by going up the Mississippi via steamboat. The Delta Queen Steamboat Co. runs six- and seven-night cruises between New Orleans and Memphis in March, from \$1,050 to \$3,864 per person, double occupancy.

Or you could simply drive, arriving in time for the Natchez Spring Pilgrimage on Mar. 8 to Apr. 12. St. Francisville's 32nd Annual Audubon Pilgrimage, which pays homage to azaleas and naturalist John James Audubon, who painted American birds while staying at a plantation here, is held on Mar. 21 to 23. Wherever you decide to go, don't wait too long. Within weeks, the azaleas will be gone with the wind.



IN THE PINK:
A landmark home in Natchez, Miss.



SAMPLING THE WARES: Antiques in a flea market, diners at the upscale Cabaña Las Lilas steakhouse, and music in San Telmo

Buenos Aires For a Song

The city is a bargain today. **BY JOSHUA GOODMAN**

GOURMET RESTAURANTS, great fashion, Old World cafés, and architecture. These have always been reasons to visit Buenos Aires, the "Paris of South America." But for the past decade, Americans would have spent less money visiting the real Paris than South America's most vibrant and sophisticated city.

Not anymore. The Argentine peso, down nearly 70% against the dollar in the past year, is putting Buenos Aires back on travelers' maps: Flights are full, hotels are packed, and the city's celebrated nightlife is thriving. Thanks to the huge influx of foreign bargain hunters, shopping malls, such as the beautifully restored Galerías Pacífico on Calle Florida, are teeming. "I spent less in a week than I normally would on a Saturday night," says Jason Russell, who was loading up his suitcases with decorative pieces and artwork to furnish a new San Francisco apartment.

One undeniable sign of the revival under way: The city's restaurants are full again. At Cabaña Las Lilas in Puerto Madero, the top steakhouse in a country where preparing steaks, grilled slowly for an hour over dying embers, is an art form, a lavish dinner for two goes for \$25 to \$35, including a superb bottle of local Malbec wine. Beyond the

It's the perfect reflection of the cosmopolitan flare of *porteños*, as the city's 3 million residents (12 million metropolitan) are known. At Scandinavian-inspired Olsen, it's hard to say which is more inebriating—the superb seafood entrées or the vodka bar. Nearby Bar Central is the place to see the city's beautiful people. Outside Palermo, Sucre, with its gray post-industrial look, offers modern interpretations on traditional cuisine, such as a spit-roasted Patagonian lamb bathed in garlic and herbs. Dinner for two runs \$30 to \$40.

Beyond late-night dining and shopping, the city boasts plenty of cultural attractions. Wander past the crumbling mansions along the cobblestone streets of San Telmo, the city's historic center, and you enter the nostalgic world of the tango. Indeed, you can see *porteños* flaunting their dominion of the sensual dance in the barrio's plazas and tango bars. On Sundays, antique dealers take over the street. March is also the start of the opera season at the ostentatious Teatro Colón.

Buenos Aires boasts two new museums worth visiting. The translucent modern edifice that is the Museum of Latin American Art (MALBA) houses an extensive collection of 20th century works. The kitschier Evita Perón Museum celebrates the life—and Dior dresses—of the country's idealized First Lady. Between eating and touring, you'll have enough to keep you busy at least a week. ■





CONVERSE ROCKS. WILL ITS IPO?

BY ROBERT BARKER rb@businessweek.com

WHEN IT COMES TO SHOE FETISHES, Imelda Marcos has nothing on Wall Street. Shares of shoemakers routinely become objects of obsessive desire until, too often, they end up in closets dodging dust bunnies. In the '80s, there was glitzy L.A. Gear. It went bankrupt. Then there was Candie's, famous for supersexy mules—and a stock that sank

94% in 18 months. Shares of Skechers USA and Vans both zipped up and down. Even the group's goliath, Nike, saw its price-earnings ratio race from 9 to 57 before slinking to 16.

Now, here comes Converse. Again, that is. Stock in a prior Converse incarnation finally ceased trading last summer near a nickel a share. In 1997, it had touched \$28, but four years later the company wound up in bankruptcy. At auction, new owners got Converse's brands, including the distinctive Chuck Taylor All Star high-top sneaker. Today, the new Converse is thriving and aims soon to sell stock in an initial public offering led by Morgan Stanley. Chances are good that Converse's familiar name will fire up even this chilly IPO market. But, I wondered, might the stock burn you?

Converse executives at the company's North Andover (Mass.) headquarters have been staying quiet ahead of the deal. A registration statement, however, tells a turnaround story, starting with Converse's decision in 2001 to move all production from the U.S. to Asia. In the States, Converse has been busy designing lots of new styles while fostering fresh interest in Chuck Taylors and other vintage models that are the retro fashion choice for swaths of teens who see them on such punk-styled pop singers as Avril Lavigne. In opposition to, say, Nike's \$200 Chrome Air Payton IVs, Converse stands as a cool reverse status symbol.

Converse has deals with such outlets as Nordstrom, J.C. Penney, Foot Locker, and Journeys stores. A designer line



RETRO STATUS SYMBOL:

Singer Avril
Lavigne in
Converses

even got a toehold in upscale spots, including Barneys New York and Neiman Marcus. Wondering about typical retail displays, I hit the Melbourne (Fla.) Square Mall and saw Converse shoes out front at Foot Locker and Journeys. Chuck Taylors—or as kids call them, “Chucks”—go for \$39.99, and other styles up to \$64.99. “They’re hugely popular,” Journeys store manager Heath Hult told me.

Such demand, along with the lower cost of Asian production, are having the in-

tended results on Converse's income statement. The company has yet to disclose full year figures for 2002. Through the first three quarters ended Sept. 30, its revenue rose 32%, to \$160 million, and net profit more than tripled, to \$17.5 million. The backlog of orders stood 32% higher, at \$72 million.

Growth? Converse is aiming at women and younger children while extending the brand to more apparel items.

It all sounds pretty good. But the unavoidable question is how much? Converse has yet to disclose a tentative price for the stock or how much of the company it hopes to sell. Once it does, there are a couple touchstones. First, other shoe stocks are close to Converse in size and market position: K-Swiss, Skechers USA, Steven Madden, and Vans (table). Even using the high end of multiples these stocks go for, a total market value over \$350 million for Converse looks generous.

Does that sound too low for an outfit billing itself as “America's Original Sports Company”? Perhaps, but also check the fair market value put on the company last fall when it issued stock options: \$71 million, “as determined in good faith by the board,” Converse's registration statement says. Naturally, stock in a public company that can be sold at a moment's notice will fetch more, maybe a lot more, than private-company shares. How much more, the market will decide. How much more you're willing to pay is up to you. ■

HOW THE SHOE FITS

COMPANY/ SYMBOL	REVENUES*	NET INCOME*	TANGIBLE BOOK VALUE*	MARKET VALUE*	PRICE- EARNINGS RATIO	PRICE- BOOK RATIO
Converse CNVS**	\$210	\$23	\$50	NA	NA	NA
K-Swiss KSWS	289	27	127	\$441	16.3	3.5
Skechers USA SKX	940	47	265	294	6.3	1.1
Steven Madden SHOO	315	20	121	206	10.3	1.7
Vans VANS	331	-13	155	88	NA	0.6

*Data are estimates, in millions, for year ended Dec. 31, except Vans', which are actual results for year ended Nov. 30

**Tentative symbol

Data: Company reports, Standard & Poor's, BusinessWeek estimates

BusinessWeek online

For an archive of columns, go to www.businessweek.com/investor/ and click on “Columns”

VISIONARY/CONSULTANT

takes the presentations
develops new prospects
lays a step ahead
returns the calls
takes quality time for family

DIRECTOR OF COMMUNICATIONS

Prints color and B/W documents
Copies all documents or bound reports
Faxes are received on plain paper
Scans in color at the touch of a button
Makes you look good

MFC-5200c
COLOR FLATBED MFC
About \$349

Our Multi-Function Center Models Do Everything. Just Like You.

no matter where or how you work, our all in one MFC's are designed to work for people like you. And with over 10 PC or Mac compatible models to choose from, finding the one with the performance and price you're looking for is easy.

Some even have the ability to print from your digital camera media card! If you need a multi-function solution that works as hard as you do, you don't need five separate machines, you need is the right one.

VARIETY OF MODELS AVAILABLE AT: Office Depot, OfficeMax, Staples, J&R ComputerWorld, Global Computer Supplies, MicroCenter, Fry's, PC Connection, MicroWarehouse, CDW, Insight, PC Mall, Quill, Viking, Dell, Amazon.com, Gateway.com, Buy.com and 4Sure.com

COLOR
FLATBED MFC
From \$249

LASER FLATBED MFC
From \$399

LASER MFC
From \$299

COLOR MFC
From \$149

At your side.™

brother®

© 2002-2003 Brother International Corporation, Bridgewater, NJ • Brother Industries Ltd., Nagoya, Japan
For more information please call the Brother Fax-Back System at 800-521-2846 or visit our web site at www.brother.com



RUMORS OF A POWER PLAY ARE HAUNTING SHARES OF VIACOM.
CREDIT-CARD WOES AT SEARS—THEN A CORPORATE RESHUFFLE.
ASTA FUNDING FINDS PLENTY OF DEBT TO BUY ON THE CHEAP.

BY GENE G. MARCIAL

Viacom: Cash Machine

Shares of media giant Viacom (VIA) are depressed not by fundamentals, but by the power struggle between Chairman and Chief Executive Sumner Redstone and President and Chief Operating Officer Mel Karmazin, whose contract expires at the end of 2003. Redstone publicly says he wants Karmazin to stay, but sources close to Viacom say Redstone, who owns 68% of Class A voting stock, really wants his No. 2 out because he's getting too much credit for Viacom's upbeat performance. That has rattled investors, since many credit Karmazin for much of Viacom's success. As a result, the stock, which hit 51 last March, has fallen as low as 36.55 as of Feb. 12.

But the "stock's drop is a buying point not to be missed—whether or not Karmazin quits," says Lewis Rabinowitz, president of investment manager R. Lewis Securities, which is buying shares. "We hope Karmazin stays, but whatever the outcome, Viacom remains extremely attractive with its superior assets and strong balance sheet." He expects Karmazin's tenure will be resolved soon. With Viacom trading at a modest 14 times estimated 2003 earnings before interest, taxes, depreciation, and amortization (EBITDA), he sees the stock at 55 in 12 months.

Mario Gabelli, whose mutual funds own more than 6% of Viacom's voting shares, agrees the stock will be attractive even if Karmazin goes. "Viacom is a cash machine," he says, adding it's on the prowl to buy more assets to keep growing, targeting cable programming. Viacom's current properties include CBS, Paramount Pictures, and Infinity Broadcasting. It posted fourth-quarter earnings of 34¢ a share—2¢ better than the First Call consensus estimate—vs. a loss a year ago.



RABINOWITZ

Why Sears Is In the Basement

Sears Roebuck (s) may be in more trouble than the No. 1 department-store chain has acknowledged. "Sears' financial woes with its ailing credit-card business could be just the tip of the iceberg," says a hedge-fund manager, who refuses to be named and is short Sears' stock. Shares have fallen to 21 a share from 59.90 in June. On Feb. 6, Sears said first-quarter profit will be far less than the 87¢-a-share consensus forecast, partly because

of crimped income from its credit-card business, hurt by rising delinquencies. The unit accounts for more than 50% of total profits. Rumors are the credit-card problems may have influenced General Counsel Anastasia Kelly to resign on Jan. 27—three months after Kevin Keleghan, who ran the credit division, was dismissed. Sears CEO Alan Lacy says Keleghan "wasn't forthcoming" with information on the card business. Keleghan has sued for breach of contract and defamation. Kelly's departure, says Lacy, was part of a corporate reshuffle. Kelly couldn't be reached for comment. Edward Jones analyst Asma Usami suggests avoiding the stock until Sears addresses its credit-card woes and slumping sales. She worries its "aggressive and high-risk" card business worsens earnings uncertainty.



Asta Turns Red Ink Into Black

During hard economic times, lots of people fall behind their debt payments or must renege on their financial obligations. That's where little-known Asta Funding (ASFI) comes in. Asta buys those receivables, or unpaid debts, from banks, finance companies, and other service providers. Asta pays a penny to 36¢ on the dollar, depending on its evaluation of the chances of collecting the distressed debts. Its net income rose from \$8.5 million, or \$2.16 a share, in fiscal 2001, to \$10.3 million, or \$2.38, in the year ended Sept. 30, 2002. Herbert Hardt, a partner at investment firm Monness, Crespi, Hardt, rates Asta a strong buy and expects it to earn \$2.65 in 2003. He sees the stock, now at 14, at 30 in two years based on a multiple of 12 times his 2003 profit estimate. A big rival, Portfolio Recovery Associates, trades at 20 times estimated 2003 earnings, he notes. In 2002, Asta bought \$1.4 billion worth of receivables for \$31 million, and Hardt expects it to spend about the same this year. Current receivables total \$3.8 billion.



BusinessWeek online Read Gene Marcial's Inside Wall Street Online monthly column at www.businessweek.com/today.htm. And see him Fridays at 1:40 p.m. EST on CNNfn's *The Money Gang*.

GET A FRESH START TODAY WITH CHARLES SCHWAB.

**For a limited time, we'll help you rebalance your portfolio
and include all recommended equity trades for a one-time fee.**



**Rebalancing plan.
Recommended equity trades included.**

Investors want a fresh start in the market, and Charles Schwab is making it possible for less than the cost of a single equity trade at many traditional brokerage firms. It begins with listening to you and your financial goals. Then we review your portfolio and provide you with a detailed report that evaluates your asset allocation and identifies common portfolio pitfalls such as sector and equity concentrations. Most importantly, we will deliver a rebalancing plan based on your needs with specific recommendations on what to buy, hold and sell. To participate, transfer \$25,000 to Charles Schwab and join the movement of investors who moved more than \$40 billion to us last year. Call 1-800-540-9874 or visit us at schwab.com.

Join the movement and get your fresh start.

CALL 1-800-540-9874

Call by February 28, 2003.

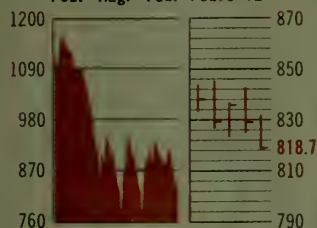
charles SCHWAB

You must respond by February 28, 2003, and be available to complete the appointment by May 30, 2003. Schwab will waive commissions and fees only for trade orders that Schwab recommends for equity positions held at Schwab and that you place in conjunction with the consultation. Net new assets exclude margin loans and transfers between Schwab accounts. For new customers, offer subject to account application acceptance by Schwab. Household balances of less than \$50,000 may trigger quarterly or annual account service fees in your account(s), depending upon account type. For household balance definition, other promotional details and limitations, see Fresh Start Terms and Conditions. Offer not transferable or valid in conjunction with any other Schwab offer. Open to U.S. residents only. One offer per household. Net new assets from January–December 2002 consist of Schwab's Retail individual investor assets and individual investor assets custodied at Schwab and managed by independent Investment Advisors. ©2003 Charles Schwab & Co., Inc. All rights reserved. Member SIPC/NYSE. (0103-7105). ADS24891.

STOCKS

S&P 500

Feb. Aug. Feb. Feb. 6-12



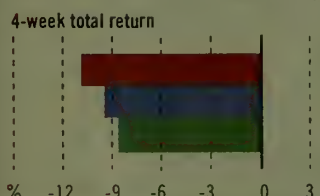
COMMENTARY

In his Feb. 11 testimony to the Senate Banking Committee, Fed Chairman Alan Greenspan said growth will pick up once the Iraq crisis is resolved. Investors, however, were not reassured. Heightened security alerts and a threat from Osama bin Laden may have added to market jitters. The one positive? The selloff has come on light volume.

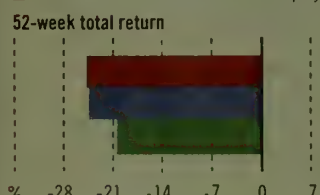
Data: Bloomberg Financial Markets, Reuters

MUTUAL FUNDS

Week ending Feb. 11



Week ending Feb. 11



Data: Standard & Poor's

U.S. MARKETS

	FEB. 12	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
S&P 500	818.7	-3.0	-6.9	-26.4
Dow Jones Industrials	7758.2	-2.8	-7.0	-21.5
NASDAQ Composite	1279.0	-1.7	-4.2	-30.7
S&P MidCap 400	397.5	-3.3	-7.5	-21.0
S&P SmallCap 600	181.4	-3.2	-7.8	-20.4
Wilshire 5000	7772.4	-3.0	-6.8	-25.2

SECTORS

	FEB. 12	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
BusinessWeek 50*	504.0	-2.9	-7.1	-25.6
BusinessWeek Info Tech 100**	259.6	-6.2	-9.0	-32.6
S&P/BARRA Growth	423.1	-2.1	-5.7	-27.6
S&P/BARRA Value	392.9	-3.9	-8.2	-25.4
S&P Energy	173.5	-3.4	-5.2	-15.5
S&P Financials	272.5	-4.0	-8.2	-20.3
S&P REIT	86.2	-1.8	-5.1	-8.2
S&P Transportation	157.3	-2.7	-7.4	-25.4
S&P Utilities	86.3	-6.9	-11.7	-35.5
GSTI Internet	73.0	0.1	-2.2	-20.2
PSE Technology	439.5	-1.8	-4.1	-34.0

*Mar. 19, 1999 = 1000 **Feb. 7, 2000 = 1000

BEST-PERFORMING GROUPS

	LAST MONTH %	LAST 12 MONTHS %
Distillers & Vintners	8.0	16.4
Oil & Gas Drilling	2.0	9.8
Biotechnology	0.7	8.5
Internet Retail	0.0	8.4
Oil & Gas Refining	-0.3	3.8

EQUITY FUND CATEGORIES

4-WEEK TOTAL RETURN	%	52-WEEK TOTAL RETURN	%
LEADERS			
Precious Metals	0.6	Precious Metals	34.5
Natural Resources	0.0	Real Estate	0.6
Real Estate	-2.3	Natural Resources	-2.1
Japan	-3.4	Japan	-8.0
LAGGARDS			
Communications	-13.6	Technology	-40.4
Technology	-13.4	Communications	-31.9
Latin America	-12.7	Small-cap Growth	-28.4
Financial	-10.6	Large-cap Growth	-27.1

EQUITY FUNDS

4-WEEK TOTAL RETURN	%	52-WEEK TOTAL RETURN	%
LEADERS			
ProFunds UltraBear Inv.	25.1	First EagleGold	58.0
Rydex Dynam. Tempest 500	25.1	Prudent Bear	54.3
ProFunds UltraShort OTC	24.7	Monterey OCM Gold	51.3
Rydex Dynam. Vent. 100	24.4	Gabelli Gold	46.5
LAGGARDS			
ProFunds UltraWris. Serv.	-27.0	ProFunds UltraSemicdr. Inv.	-73.4
ProFunds UltraSemicdr. Inv.	-23.5	Frontier Equity	-68.0
Rydex Dynam. Veloc. 100	-22.3	ProFunds UltraOTC Inv.	-65.2
Reynolds	-22.2	Rydex Dynamic Veloc. 100	-64.6

GLOBAL MARKETS

	FEB. 12	WEEK	% CHANGE YEAR TO DATE	LAST 12 MONTHS
S&P Euro Plus (U.S. Dollar)	779.8	-4.4	-7.7	-22
London (FT-SE 100)	3616.1	-1.7	-8.2	-29
Paris (CAC 40)	2770.6	-4.0	-9.6	-36
Frankfurt (DAX)	2571.3	-5.7	-11.1	-47
Tokyo (NIKKEI 225)	8664.2	2.1	1.0	-12
Hong Kong (Hang Seng)	9314.9	1.5	-0.1	-14
Toronto (S&P/TSX Composite)	6452.5	-1.1	-2.4	-15
Mexico City (IPC)	5763.9	-3.4	-5.9	-12

FUNDAMENTALS

	FEB. 11	WK. AGO	YR. AGO
S&P 500 Dividend Yield	1.93%	1.88%	1.41%
S&P 500 P/E Ratio (Trailing 12 mos.)	29.2	30.0	61.5
S&P 500 P/E Ratio (Next 12 mos.)*	15.0	15.3	20.7
First Call Earnings Revision*	-2.43%	-2.44%	-0.46%

*First Call O

TECHNICAL INDICATORS

	FEB. 11	WK. AGO	READ
S&P 500 200-day average	924.6	931.0	Negative
Stocks above 200-day average	29.0%	32.0%	Positive
Options: Put/call ratio	0.94	0.86	Positive
Insiders: Vickers NYSE Sell/buy ratio	2.09	2.24	Neutral

WORST-PERFORMING GROUPS

	LAST MONTH %	LAST 12 MONTHS %
Multi-Utilities	-35.3	-68.8
Tires & Rubber	-27.8	-68.3
Photographic Products	-25.6	-58.9
Semiconductor Equip.	-24.7	-55.9
Multi-line Insurers	-24.4	-52.6

INTEREST RATES

KEY RATES

	FEB. 12	WEEK AGO	YEAR AGO
MONEY MARKET FUNDS	0.91%	0.94%	1.60%
90-DAY TREASURY BILLS	1.16	1.16	1.74
2-YEAR TREASURY NOTES	1.60	1.68	3.03
10-YEAR TREASURY NOTES	3.91	3.96	4.99
30-YEAR TREASURY BONDS	4.84	4.80	5.45
30-YEAR FIXED MORTGAGE†	5.90	5.92	6.85

†BancQuote, Inc.

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 30% federal tax rate.

	10-YR. BOND	30-YR. BOND
GENERAL OBLIGATIONS	3.87%	4.72%
TAXABLE EQUIVALENT	5.53	6.74
INSURED REVENUE BONDS	3.99	4.95
TAXABLE EQUIVALENT	5.70	7.07

THE WEEK AHEAD

NEW RESIDENTIAL CONSTRUCTION Wednesday, Feb. 19, 8:30 a.m. EST ► Housing starts in January are forecast to have slipped to an annual rate of 1.78 million. That's based on the median forecast of economists surveyed by MMS International.

PRODUCER PRICE INDEX Thursday, Feb. 20, 8:30 a.m. EST ► January producer prices probably climbed 0.3%. Minus food and energy, prices very likely rose 0.1%.

INTERNATIONAL TRADE Thursday, Feb. 20, 8:30 a.m. EST ► The December foreign trade deficit very likely fell to \$39 billion.

LEADING INDICATORS Thursday, Feb. 20, 10 a.m. EST ► The Conference Board's January index of leading indicators probably rose 0.1% for a second straight month.

CONSUMER PRICE INDEX Friday, Feb. 21, 8:30 a.m. EST ► January consumer prices for goods and services most likely grew 0.3%. Excluding food and energy, core inflation probably rose by 0.1%.

FEDERAL BUDGET Friday, Feb. 21, 2 p.m. EST ► The federal government is expected to report a surplus of \$29.5 billion for Janu-

ary, short of the \$43.7 billion surplus posted in January, 2002. In December, the surplus stood at a small \$4.4 billion.

The BusinessWeek production index fell to 194.7 for the week ended Feb. 1 and was up 4.4% from a year ago. More complete information is available at www.businessweek.com.

BusinessWeek online

For the BW 50, more investment data, and the components of the production index visit www.businessweek.com

live well **work smart** play hard—wireless makes it possible

Success can be measured.

Whether you climb one rung at a time, or shoot straight up like a rocket, making it to the top in business requires preparation, information and vision. In wireless, that means knowing what's new, what's hot and what's not *before* your competition does.

With **900+ exhibitors**, more than **400,000 sq. ft.** of exhibit space, **International Pavilions** and attendees representing more than **90 countries**, CTIA WIRELESS 2003 will place you at the pinnacle of everything that's new in wireless—*globally*.

CTIA WIRELESS 2003's Pavilions for Developers, Mobile Entertainment and "Wireless Lifestyles" will generate more wireless and mobile computing product announcements than any other show. Whether you've seen it on BBC, CNN, in the *Wall Street Journal*, *Wireless Week* or *RCR Wireless News*—when it's news in wireless, it's out of CTIA WIRELESS.

Climb the ladder. Grab the brass ring.

CTIA WIRELESS 2003 is the place to start.

CTIA Educational Sessions

March 17-19

Special Interest Seminars

- Wireless Data University
March 16
- Mobile Entertainment Summit
March 16
- Latin American Conference
March 18

Co-located Conferences

- IEEE Wireless Communications and Networking Conference – WCNC 2003
March 16-21
- Microsoft® Mobility Developer Conference
March 18-21

Smart

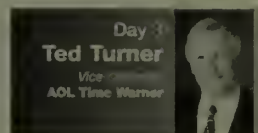
CTIA WIRELESS 2003

ERNEST N. MORIAL CONVENTION CENTER, NEW ORLEANS, LA, USA



www.ctiashow.com

Register NOW and save up to \$345



ed by
CTIA

Partners:



Show Sponsors:



20
YEARS OF
WIRELESS

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

A.G. Edwards & Sons (AGE) 114
Agilent Technologies (A) 16
American Express (AXP) 120, 127
AOL Time Warner (AOL) 42, 58, 60, 124, 127
Apple Computer (AAPL) 130
Asta Funding (ASFI) 144
AT&T (T) 42
Avaya (AV) 16

B

Bank of America (BAC) 58, 130
Barneys New York 142
Baxter International (BAX) 130
BellSouth (BLS) 40, 41
Best Western International 120
Blancaneaux.com 138
Blockbuster (BBI) 46
Blue Chip Economic Indicators 60
BMW 96
BP (BP) 56
Broadcom (BRCM) 130
Brobeck Phleger & Harrison 130

C

Campanile 135
Candie's (CAND) 142
Caterpillar (CAT) 127
Cavesbranch.com 138
CBS (VIA) 144
Cendant (CD) 120
Chamberlain Group 26
Charles River Associates (CRAI) 96
ChevronTexaco (CVX) 114
Cisco Systems (CSCO) 114, 130
Citigroup (C) 46, 58, 130
Clifford Chance 130

Clipper Windpower 96

Coca-Cola (KO) 46, 49, 127
Comcast (CMCSK) 42
Conseco (CNCEQ) 41
Converse (CNVS) 142
Cooley Godward 130
Corning (GLW) 18
Costco Wholesale (COST) 16

D

Deere (DE) 46
Delta Queen Steamboat 140
Deutsche Bank (DB) 50, 56
DirecTV (GMH) 42
Dow Chemical (DOW) 16

E

Eastman Kodak (EK) 127
EchoStar Communications (DISH) 42
Edward Jones 114, 144
El Paso (EP) 46
Emerson Electric (EMR) 16
Enron (ENRNQ) 16, 28, 41
Ernst & Young 40, 41
E*Trade Group (ET) 130
Exelon (EXC) 60
Expedia (EXPE) 120
ExxonMobil (XOM) 56, 96

F

Finley Kumble Wagner
Heine Underberg Manley 130
First Union Brokerage Services 114
Food Lion 96
Foot Locker (Z) 142
Footstar Athletic 14
Forrester Research (FORR) 120
Friedman Billings Ramsey (FBR) 42

G

Gap (GPS) 130
General Electric (GE) 22, 42, 58, 114, 127
General Motors (GM) 42, 58, 96, 114

H

Hallmark Cards 40
Hasbro (HAS) 44
HBO (AOL) 42
HCA (HCA) 16
Herman Miller (MLHR) 49
Hewlett-Packard (HPQ) 26
Honda (HMC) 96
Honeywell International (HON) 41
HSBC Securities (HBC) 60
Hughes Electronics (GMH) 42, 60

I

Infinity Broadcasting (VIA) 144
Institutional Shareholder Services 127
Intel (INTC) 114, 130
International Paper (IP) 114
Inzi Display 50

J

J.C. Penney (JCP) 42, 142
J.D. Power & Associates 114
JetBlue Airways (JBLU) 120
Johnson & Johnson (JNJ) 46

Journeys 142
J.P. Morgan Chase (JPM) 42

K

Kohl's (KSS) 42
K-Swiss (KSWS) 142

L

Latham & Watkins 130

LeapFrog Enterprises 44
Lexmark International (LXK) 26
Lower Manhattan Development 14

M

Marriott (MAR) 130
Mattel (MAT) 44
Maxim Integrated Products (MXIM) 16
McGraw-Hill (MHP) 146
McKesson (MCK) 130
Mercer Human Resource Consulting (MMC) 16
Merrill Lynch (MER) 16, 42
Microsoft (MSFT) 58, 120, 124
Monness Crespi Hardt 144
Morgan Lewis & Bockius 130
Morgan Stanley (MWD) 142

N

NBC (GE) 42
New York Yankees 14
News Corp. (NWS) 42
Nieman Marcus (NMGA) 142
Nike (NKE) 14, 142
Nokia (NOK) 124
Nordstrom (JWN) 142
NPDFashionworld.com 42

O

Oracle (ORCL) 124
Orbitz.com 120
Owens Corning (OWENQ) 130

P

Palm (PALM) 16
Paramount Pictures (VIA) 144
Philadelphia Eagles 14
PhoCusWright 120
Pillsbury Winthrop 130

PNC Financial Services Group 58
Preview Travel 120
Priceline.com (PCLN) 120
Principal Financial Group 34
Procter & Gamble (PG) 114
PSINet (PSIXQ) 114

R

Ramada Inn Franchise Systems 120
Retail Options 42
Ritz-Carlton Hotel (MAR) 130
R. Lewis Securities 144
Royal Dutch/Shell Group (RD) 56

S

Sabre (TSG) 120
Sagemark Consulting 38
Salomon Smith Barney (C) 42
Samsung Investment Trust Management 50
Sanford C. Bernstein (AC) 42
SBC Communications (SBC) 42
Scholastic (SCHL) 46
Scios (SCIOS) 46
Sears Roebuck (S) 144
Sidanco 56
Skechers USA (SKX) 142
Skylink Technologies 26
Sprint (FON) 40, 41
Standard & Poor's (MHP) 60, 146
Staples (SPLS) 49
Static Control Components 26
Steven Madden (SHOO) 142
Studio Daniel Libeskind 110
Sun Microsystems (SUNW) 16, 114, 124, 130

Sun Products 135
Swift 22
Symantec (SYMC) 16

T

Target (TGT) 42
Taylor Nelson Sofres Korea 50
THINK 110
Thomson First Call 58, 144
3Com (COMS) 130
3M (MMM) 96, 114
Toyota (TM) 96
Travelocity (TSG) 120
Travelweb.com 120
Tyumen Oil 56

U

UBS Warburg (UBS) 42
Union Carbide 114
United Technologies (UTX) 96
USA Interactive (USAI) 120

V

Vans (VANS) 142
Venture Law Group 130
Verizon Communications (VZ) 58
Viacom (VIA) 144

W

Wal-Mart Stores (WMT) 42, 127
Walt Disney (DIS) 16
Watson Wyatt Worldwide (WW) 16
Wells Fargo Bank (WFC) 130
Wilson Sonsini Goodrich & Rosati 130
WorldCom (WCOEQ) 40, 42
WorldTravel BTI 120

Y

Yahoo! (YHOO) 127

Z

ZandI Group 42

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and one August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc., Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020 U.S. subscriber rate \$59.97/year; Canada: CDN \$94.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Canada Post Publication Mail Agreement Number 40012501 Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO. 80322-3235

For Ad Rates and Information
Phone: (312) 464-0500
Fax: (312) 464-0512

MARKETPLACE

Advanced Learning

ABSOLUTELY FREE EVALUATION

**Bachelor's -- Master's --
Ph.D. Degrees**
Based on life and work experience.
Confidential -- Fast -- Student
Loans. www.arcc.org
800-951-1203

Advanced Learning

Get Your MBA Through Distance Learning

Prestigious British University Accredited
Under Royal Charter
One of the World's Largest Distance
Learning MBA Programs
All Necessary Study Materials Provided
Access To On-Line Facilities
Support From Local Resource Centers and
Student Networking
Flexible Financing & Payment Plans Available



Call Today: 800-874-5844 **Rdi**
or visit www.rdi-usa.com

Media Services

COMPARE OUR RATES!!

International Media Buying Specialists!!

We get it done!

Magazines -- Newspapers
Outdoor -- Radio -- TV
Latin America, Europe,
Middle East, Africa, Asia, Australia
Metromark International Corp.
Media Buying Services
U.S. 1.800.767.1998
Int'l. 1.858.625.4614
www.metromarkcorp.com

Distance Learning

DISTANCE LEARNING DEGREE PROGRAMS

California Pacific University
100% Off-Campus. Approved BBA, MBA,
MA, DBA. Programs in Business or Health
Administration at the Masters level. Write:
1017 E. Grand Ave., Escondido, CA 92025
Call 760-739-7730 or 800-458-9667
Visit: www.cpu.edu

Men's Footwear

MEN: BE TALLER!!

Tired of being
short? Try our
quality footwear.
HIDDEN height-
increasing feature
INSIDE shoe. No
OVER SIZED
HEELS! Will make



you **2"-3" TALLER** depending on style. **OVER 100 STYLES AVAILABLE.**
Extremely comfortable. Sizes: 5-12 Widths: B-EEE. In business
over 55 years. **MONEY-BACK GUARANTEE.** Call or write for
FREE color catalog.

ELEVATORS®

RICHLEE SHOE COMPANY, DEPT. BW32
P.O. BOX 3566, FREDERICK, MD 21705

1-800-290-TALL

Golf

WINTER GOLF?

An MEE sliding
doors, rigid enclosure
will transform your
golf cart to be as
comfortable as your car

Visit
www.meeinc.com
for information

Business Software

timeclock software

Stop Spending Too Much on Payroll.

- Fully PC Based Software
- Track Payroll, Attendance,
& Benefits
- Easily Monitor Overtime
- Reduce & Eliminate
Payroll Errors

**Complete Systems
As Low As
\$99.95**

1-800-456-2622

Free Trial & Brochure Available

Copyright 2002-2003 Forte Systems, All Rights Reserved



www.etimeclock.com

Forté
systems

Business Services

Need a Logo?

mylogo Get a Professional
Custom Designed
LOGO TODAY!
Visa/MC/Amex
Toll-Free: 1-888-869-5646
www.1800mylogo.com

Real Estate

FREELANDLIST.COM

Pics, sizes & descriptions
of some of America's
most beautiful land
for sale at bargain prices.
Specials updated weekly!

Computer External Drives

ALL THE DATA IN YOUR HAND

Up to 120 Gigabytes!

As featured in BusinessWeek and WSJ

- ✓ Smallest USB external storage device on the market
- ✓ Presentations, movies, music, thousands of pictures
and files at your fingertips in a flash
- ✓ Ideal for professionals and students
- ✓ Carry your work anywhere
- ✓ USB 2.0 blazing speed
- ✓ Backup your files
- ✓ Plug and Play



Wolverine

www.wolverinedata.com

(949) 653-6300

Corporate Discount and Gift Program Also Available

Business/Career Opportunities

EXECUTIVE CONSULTING

Manage local office offering unique
financial services for lawsuit protec-
tion and tax savings. Huge income
with residuals. Local appointments
available. No selling required. Talk to
existing consultants. 24-hr. recording
(800) 653-4497

SIX FIGURES...

Plus Car & Home Benefits
Billion \$ Int'l Health Corp. from
Japan. Unlimited Earning Poten-
tial from Your Home Office.
For Business Ownership details, call
877-747-6629

The current **SLOW**
economy is making
BIG MONEY for loan
and leasing brokers!

Business Loans - Equipment Lease
OWN YOUR OWN
BUSINESS LOAN COMPANY
No experience needed... We support you!

RECEIVE A **FREE**
45 MINUTE VIDEOTAPE SEMINAR
FULL COLOR INFO PACKET & BROCHURE

CALL TODAY
800-336-3933

www.viewtlc.com
The Loan Consultants, Inc.

A VERY RISKY FISCAL POLICY

It's time for Washington to get a grip on policy. With the nation poised for war, anxious about terrorism, and jittery about the economy, plans to restructure the tax system, recast the social safety net, and remake the world are pouring out of the Bush Administration. Congress and the country are simply overwhelmed. We need to get the Iraq war over, settle down, and talk about these ideas or they risk being dismissed or adopted regardless of their merits.

We worry most about taxes. The recovery remains fragile and could use help. We also favor cutting taxes on capital to stimulate long-term investment and economic growth. But add up all the proposals floating around on dividends, income, savings, and retirement, and the cost in tax revenues looks way too high. The budget deficit for the rest of the decade appears out of control just when defense spending is soaring and the approaching retirement of the baby boomers will place huge burdens on Social Security and Medicare.

No less a personage than Federal Reserve Chairman Alan Greenspan is predicting trouble unless we take control of our finances. The White House is banking on myriad tax cuts to generate enough growth to pay for the deficits. But Greenspan told Congress that "faster economic growth alone is not likely to be the full solution to the currently projected long-term deficits." Something would have to give.

That would probably be Social Security and Medicare. Washington is not about to trim defense and homeland security, which, together with entitlements and interest on the

Federal debt, add up to 85% of the budget. Because there's little left to cut, ballooning deficits would force major shrinkage of the social safety net. Privatizing both Social Security and Medicare have been discussed for years, with no consensus. Forcing this dramatic change by driving deficits higher and bleeding the government of revenues is no way to go. A wrench in social welfare should not happen by stealth.

This also applies to radically shifting the tax base. The current debate focuses on the size of tax cuts, but the thrust of the new proposals puts the tax burden on consumers and consumption. By cutting taxes on savings and dividends, we might spur investment. But we would also make the tax system more regressive. We should talk about this kind of momentous move, not read about it in the White House annual economic report to Congress. And we should also be discussing a realistic energy policy that reduces consumption and dependence on Mideast oil (page 96).

Tax cuts by themselves will not generate growth if people are too afraid to spend or invest. Today they're playing it safe, using the money from tax cuts to pay down credit-card debt and mortgages at record levels. While war and terrorism are the most obvious risks facing us, endangered safety nets, galloping deficits, and confusing tax proposals make for uncertainty as well. Remember, too, that Japan and Germany have high savings rates—and consumption taxes—but miserable growth rates. We are running a great risk with fiscal policy at precisely the wrong time.

TIME TO MODERNIZE THE U.N. AND NATO

America and its allies are at each other's throats over Iraq. France and Germany are blocking the U.S. Washington accuses NATO of weakness and threatens the U.N. with irrelevance. Europe charges America with arrogance. There is little agreement on foreign policy and fraying commitment to global institutions. And for good reason: The policies and institutions are themselves archaic, built for another era, organized around different dangers, and in desperate need of reform. It's time to modernize them.

It is true that America is now the dominant power, but it is also true that this isn't the first time. After three world wars—the First, the Second, and the Cold War—the U.S. was left standing stronger than any other country. But following the first two, America led efforts to build new international institutions and create new global foreign policies to deal with the threats of the next era. In the '90s, after the Cold War, there appeared to be no such need—a mistake in judgment. It took September 11 for America to realize that new dangers had arisen in the world and that the policies of the Cold War, containment and mutually assured destruction, would no longer work. Rather than rational states, sui-

cidal fundamentalist groups, perhaps armed with catastrophic weapons, are now the major threat to the nation.

The tensions in the alliance arise partly because Germany and France (and many people around the world) do not appreciate what has changed. The U.S. has neither made a case for nor built a consensus around a new post-September 11 foreign policy. It should do both. When does a nation lose its right to sovereignty? Why does preemption apply to Iraq, and containment to North Korea? Europe must think about when, if ever, it thinks military force is appropriate in the world. Most importantly, NATO and the U.N. should be revamped so that the U.S. can work through these multilateral organizations effectively. Rising democratic nations such as India, Turkey, and Poland must be given power, and vetoes should be replaced by simple voting majorities. Russia vetoed U.N. action in Bosnia as thousands died. France and Germany are blocking majority NATO support for the U.S. on Iraq—and even for defending its own member, Turkey, from the fallout of war. This needs to change.

The terrors of the 21st century are upon us. There's no time to lose.



**AT MANY COMPANIES,
SOME OF THE
HARDEST WORKERS
HAVE THE BEST PARKING SPACES.**

